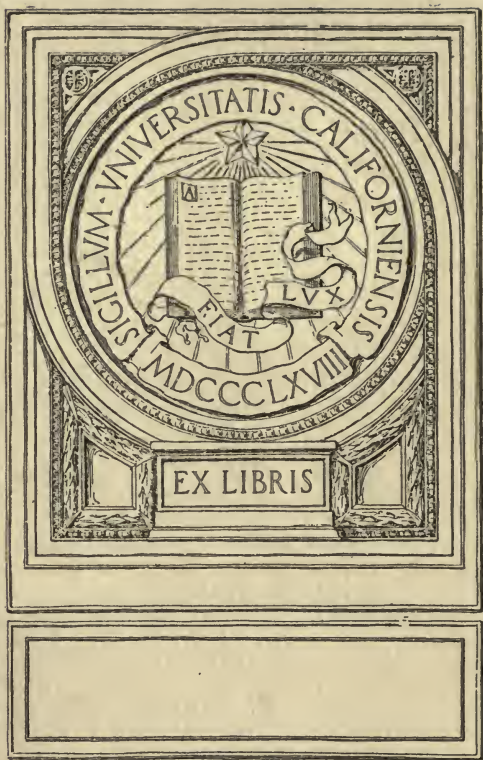


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THE INDUSTRIAL OUTLOOK

BY VARIOUS WRITERS

EDITED BY

H. SANDERSON FURNISS, M.A.

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THE INDUSTRIAL REVOLUTION

BY J. H. BURNETT

IN TWO VOLUMES

VOLUME I. THE PRELIMINARY PERIOD

THE
INDUSTRIAL
REVOLUTION

BY J. H. BURNETT

IN TWO VOLUMES

VOLUME I

PREFATORY NOTE

THE authors of this book are individually only to be held responsible for their own contributions. The responsibility for the book as a whole, and for its arrangement, rests with the Editor. Both authors and Editor desire to express their gratitude to Professor Edwin Cannan and to Mr. A. E. Zimmern, who have read all the chapters in manuscript, and to whom they are indebted for many valuable criticisms and suggestions.

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THE INDUSTRIAL OUTLOOK

17
ESSAYS BY VARIOUS WRITERS

I

INTRODUCTORY

A BOOK with the title *The Industrial Outlook* may perhaps suggest that its writers have assumed the rôle of prophets, and that its contents may be of so speculative a nature as to make it of little real practical value. At the outbreak of the present War many rather unfortunate prophecies were made as to its probable effect on industry; but the fact that prophecies with regard to the course of events at one particular time have not been fulfilled is no reason why attempts to forecast the future should be abandoned, or why speculation as to future economic conditions should always prove false. Science, if it is true science, must be able to predict; and economics, if it is to justify its claim to the name of science, must possess the power of prophecy.

Any discussion, however, of the industrial outlook, if it is to be of real use, must be based upon a thorough knowledge of conditions as they are; and in the present case something more than this is required. A thorough knowledge of industrial conditions as they were before August, 1914, is needed, and also a clear understanding of the changes brought about in those conditions by

the War. Thus, each of the writers has attempted to explain as fully as space would allow the conditions prevailing before the War with regard to the subject under consideration, and also to point out the changes brought about by the War itself. This has naturally involved the traversing of a good deal of ground which is no doubt fairly familiar to many readers, but it was felt that this could not be avoided, and that otherwise the suggestions as to reconstruction which some of the chapters contain would lose much of their weight and be less easily understood. The authors do not claim to have covered the whole field of inquiry, but have selected the topics which seem to them of the greatest immediate importance.

It is often asserted that the consideration of the industrial problems which are likely to arise after the War is out of place in the midst of a great national crisis. "Let us get the War over first," is a phrase often heard; and it is generally those who are loudest in their complaints as to our unpreparedness for war who seem most anxious that we should be unprepared for peace. Nothing can be more fatal than a policy of "drift" with regard to the many complicated problems that are bound to arise as soon as peace is declared; and to be unprepared for peace may turn out to be quite as disastrous as to be unprepared for war.

Again, it is impossible to maintain silence as to the future when there is already so much prophecy in the air—prophecy which not seldom emanates from those very people who are loudest in their protestations as to the necessity of concentrating all our energies on the prosecution of the War. In many quarters it is not thought unwise or inexpedient to insist upon the necessity of a commercial war to follow immediately

upon the life-and-death struggle now taking place ; or to make arrangements for its vigorous prosecution, though these involve a complete revolution of our fiscal policy. Why, then, should it be thought undesirable to consider the means by which the smooth working of our great national industries may be secured when the War is over, in order that, when the time comes, we may be able to settle, in the best interests of the community as a whole, the many questions with which we shall certainly be confronted ?

Most people, whether they are engaged in endeavouring to forecast the future, or occupied in insisting that we should concentrate on the War and leave the future to take care of itself, appear to be agreed upon one point—viz., that when peace comes things will not be as they were before the War. The War will have brought about changes, and in many directions a fresh start will have to be made. Views differ considerably, however, as to the exact nature of these changes, and opinions advanced on this point appear, as is perhaps not unnatural, to be largely influenced by the kind of changes which those who hold them desire to see.

Take the question of the position of labour after the War. It is often maintained that life in the army will have the effect of greatly modifying the opinions of those who formerly took an active part in the Trade Union Movement, and in the Labour Movement generally. Trade Unionists will have learned the error of their ways, and dangerous socialistic notions will have been knocked out of their heads in the rough-and-tumble of military life. The discipline of the army will have made them more submissive and more willing to accept without constant hickering the workshop rules and regulations imposed by employers ; while the good-fellow-

ship which is reported as prevailing between officers and their men is likely to continue in the form of better feeling between employers and employed.

On the other hand, it is argued—and with more plausibility as it seems to the present writer—that the old bitterness between capital and labour will reappear unless the causes of this bitterness are eradicated. There is really no close analogy between the relation of officers and men, and the relation of employers and employed. The bitterness of even the most extreme men in the Labour Movement has rarely, if ever, been bitterness against their employers as men. There have, no doubt, been isolated cases of resentment against particular managers or individual controllers of industry whose treatment has been considered exceptionally harsh or unreasonable; but with the employing classes as men the workers as a rule have no quarrel. If they ever came into close contact with them—which is rarely the case—the relations subsisting between the two classes from the personal point of view would in all probability be just as friendly as those which exist between a private and his Captain or Major. The thoughtful working man does not object to his employer *qua* man, but simply as part of a system which places the workers in the position of wage-earners, and which leaves the ordering of their lives too much in the hands of others.

Men from all kinds of occupations, and with all sorts of opinions, have mingled together in various parts of the world as never before; and there must be many a man in the army who has learned to think as he never thought before about industrial questions, and about his own position in the ranks of industry. There must, for instance, be many an agricultural labourer who has

begun to have misgivings about coming back to the sort of life he knew before the War, when he was more or less content to live in his country village in a hovel on fifteen shillings a week, working twelve or fourteen hours a day, with no probability of any change in the future, beyond inability to work any longer and an old-age pension.

To some, at any rate, amongst the working classes, the War has meant a distinct rise in their standard of life, which is not likely to be relinquished without a struggle. Labour, as a whole, has made great sacrifices during the War, and those who speak on its behalf will insist that these sacrifices shall not be forgotten, and that the position of labour in industry in future shall be very different from what it was formerly. The great danger is that the working-class leaders will not make up their minds as to what that position ought to be until it is too late, and that they will place before the Government at the last moment ill-thought-out and impracticable proposals. Let the Labour Movement think out at once a definite policy which can be laid before the Government at the right time; and let its leaders be able to say not merely, "This is our policy," but "This is how it can be carried out."

The effect of the War upon employers and capital, as in the case of labour, seems to suggest that when peace comes some alteration may take place with regard to the share in the control of industry exercised by employers and owners of capital. Whatever may be said for the smooth working of the present industrial system in normal times, this system, which left the control of our most important industries in private hands, failed us to a great extent in a national crisis, and at a moment when it was most essential that the

machinery of industry should work with the utmost efficiency. A large amount of State interference became necessary in order to keep the ship afloat, and during the last two years the State has interfered with industry to an extent which before the War would have been deemed by the great majority of the population not merely inexpedient, but impracticable; though the amount of control even now exercised by the State still falls far short of what Socialists have long advocated.

Our bankers were not able to carry on the banking business of the country without the help of the State; our Insurance Companies were not able to insure the nation's shipping against the risks of war; the Government had to take control of the railways; and the State had to come to the aid of some of our armament firms with capital; the Government had to interfere with our carrying trade, and control the supply of certain kinds of raw material—*e.g.*, wool; private enterprise failed to provide us with the guns and munitions we required until the Government began to exercise a measure of control in the industries which produced them; it was found necessary to restrict the freedom of the individual to invest his capital wherever he chose; and an excess profits tax had to be introduced as a counterpoise to the power which the present competitive system gives to certain classes of producers of exploiting the nation in a national crisis. This list, of course, does not include all the new work which the State has undertaken since the outbreak of war; but it is sufficient to show that the change has been great and far-reaching.

How far is this increase of State control likely to be permanent? It may be said on the one hand that the times are altogether abnormal, and that it is therefore impossible to draw from the changes that have been

made necessary by the War any satisfactory conclusions as to the future. Again, the new departures have in the main been carried out with the approval of the whole nation, and the State can do much with popular approval behind it which it cannot do when opposed by any powerful section of the community.

On the other hand, if the results of State interference have been satisfactory it may be less difficult to secure popular support for its continuance, in spite of the fact that such new departures would not have been sanctioned before the War. The necessities of the War have, at any rate, provided the critics of the existing industrial system with a complete reply to the many questions formerly put by the defenders of the *status quo*, to which the only answers have hitherto been necessarily little more than expressions of opinion. We know that the State can do many things in a time of emergency which many people thought it could not do at all without very serious consequences; and there seems no reason to doubt that, with public opinion behind it, what the State can do in a time of emergency it can do when times are normal.

If, for instance, it is possible in war-time to use part of the profits of industry for the national good when profits are thought to be excessive, why should it be impossible to treat excessive profits in the same way in times of peace? If, again, it is possible when money is needed for the materials of war, to set limits to the free export of capital, why should it be impossible to set limits to its free export when it is needed at home to promote social welfare in times of peace? If it is reasonable for the Government to say in effect, as it has done, that it is more for the national good that capital should be invested in the production of muni-

tions than in Mexican tramways, would it be unreasonable for it to say that the investment of capital in Mexican tramways is less essential to the national good than its employment, for instance, in the building of decent houses for the people at home?

The whole question of the limits of State interference is, of course, one of the greatest complexity, and there is much to be said on all sides of it; but the changes brought about by the War seem to justify a reopening of the subject; and a book of this kind would not be complete without the concluding chapter on the State and the Control of Industry.

The same may be said of Chapter VII., on Credit and Banking, which should logically, perhaps, have come first in order, as in a modern State credit is the pivot on which the whole economic system ultimately rests. It has, however, been thought best to cast logic on one side, to consider the book as a whole, and to adopt what seemed to be the most attractive arrangement of the subjects discussed.

The War has had such unforeseen effects on the credit and banking machinery of the country, and such novel expedients have had to be resorted to in order to prevent it from becoming hopelessly disorganized, that it seems pretty certain that the whole subject of credit and banking will require a good deal of overhauling when peace comes. Here, again, as has been already stated, the State was called in to the assistance of those responsible for our banking system, and of financiers and others on whom we had hitherto depended for the smooth working of the mechanism; and one of the questions that will have to be decided is undoubtedly, as the author of the chapter says, "whether a complete alteration of the banking system is required, or

whether reform is to proceed within the already existing framework of institutions." The subject of credit and banking is probably less familiar to the general reader than the other branches of economics which come into the book; and in order to enable him fully to understand the nature of the changes made necessary by the War, it seemed advisable to devote a considerable part of the chapter to a statement of the elementary principles of credit and banking.

Some of the problems which will arise when the War is over will be in a great measure new; but many, and probably the great majority of them, will be old problems—old problems, however, which will have become accentuated and more complex than formerly. A problem which falls into the latter class is that of taxation. For many years to come we shall have to raise an amount of revenue far in excess of any sum which it would have been possible to drag out of the pockets of the tax-payers three years ago. This, it will be seen, is an old problem accentuated, for it is not the problem of raising revenue, but of raising more revenue. New methods of raising it may no doubt be devised, but the money will in all probability be obtained by means of old methods, which, however, may need revision, and readjustment to new circumstances. It appeared necessary, therefore, in a book on the industrial outlook, to include a chapter dealing with the principles and methods of taxation in the light of the experience of the War, and with the probable effects of taxation on industry in the years to come.

Most works on industrial questions deal mainly with the relations of labour to capital and pay comparatively little attention to the almost equally important relations of producer to consumer. To this it may be said, no

doubt, that producers and consumers are in the main the same persons; and this is true. It is, nevertheless, possible to draw a fairly clear distinction between the point of view of groups of men considered as producers, and their point of view as consumers. Any consideration of the question of the control of industry must include the consumer, for it is always possible for labour and capital to patch up their quarrels, and for combinations of employers on the one hand, and of labour on the other, to agree to squeeze out of the consumer, by means of high prices, a high scale of both wages and profits. No doubt the consumer could not be mulcted in this way simultaneously throughout industry, as such an attempt would very soon recoil on the heads of those who embarked upon it; they would ultimately lose as much as consumers as they gained as producers. But a combination of employers and employed in particular industries might be able to hold up sections of consumers—at any rate, for a time—and threaten the economic peace of the community.

The Co-operative Movement has gone far towards solving the problem from the consumer's point of view, though it has left the other problem of the relations of capital to labour practically untouched. No treatment of the question of the control of industry can be satisfactory which does not find a solution to both problems; but a satisfactory solution certainly demands that consumers, or at any rate their representatives, should be able to make their voices heard. As the book deals largely with the question of the future control of industry, it seemed right to include in it a chapter which considered the consumer's point of view (Chapter V.).

A book of this kind would also have been incomplete without a chapter on what is still one of our most impor-

tant industries—viz., agriculture. The War has brought fewer radical changes into agriculture than is the case with many of our large industries, and in fact, apart from the difficulty of obtaining an adequate supply of labour for the land, and the stimulus given by high prices to the growing of certain kinds of agricultural produce, British agriculture has, for the most part, pursued the even tenor of its way. The War has, however, called fresh attention to the importance of our being able to produce a larger proportion of our food-supply in our own country—at any rate, during a national crisis—and to a fact long fully realized by everyone who knew anything about the subject: that our land is capable of producing a great deal more than we have been in the habit of obtaining from it. Rural problems had been more and more prominently to the fore in the years immediately preceding the War, and they will certainly not slip into the background with the return of peace.

The chapter on Rural Problems (Chapter VI.) confines itself almost entirely to the question of agriculture, owing to limitations of space; otherwise it might well have covered a wider field, and have dealt with the question as to whether industries other than agriculture could not with advantage be carried on in the country, in order to get rid of the horrors of some of our manufacturing towns. The problem of how to make the best use of our land is not merely one of the production of wealth, but of welfare; but a satisfactory discussion of questions of this kind would have probably involved an additional chapter upon life in the industrial town.

As the book contains a good many criticisms of the industrial system as we know it to-day, it seemed as well, in order to avoid misunderstanding—and also because criticisms are of little use unless the thing

criticized is thoroughly understood—to begin with a chapter explaining the principles of business organization, and particularly the part played in industry by employers and property.

The inclusion of Chapter III., on the War and the Status of Labour, and Chapter IV., on Labour Organization, calls for no explanation.

Looking at industry as a whole, it might at first sight appear that the problems which will have to be faced when peace comes fall into two distinct classes—one including the immediate problems of the reorganization of industry on a *peace* footing; the other the much wider, much more difficult, and much more debatable problems of the reorganization of industry on a *new* footing. These two kinds of problems, however, cannot be separated; and unless we are going to abandon those in the second class altogether as beyond the wit of man to solve, the problems of reorganization on a peace footing must be dealt with with reference to the problems of reorganization on a new footing.

The principal questions that will have to be dealt with under the first head are the replacing in industry of some millions of men from the army; change of occupation for some millions of men engaged in the production of munitions; the finding of employment for men and women who have acted as substitutes for those who left work for the army; the finding of employment for men who are partially disabled; the settlement of the question of the position of women in industries which they have entered for the first time during the War; the problem of the training of boys and girls who have been hurried into industry without adequate education, either technical or in the broad sense of the word; and

the adaptation of factories and machinery used in the production of materials of war for the production of materials of peace.

Of course, all these questions might be dealt with on the old lines; and it would be quite possible for us to drift back before very long into a state of things very like that which prevailed before August, 1914. But is this desirable? Few impartial observers could be found who would look back with satisfaction upon the industrial situation as it was during the years immediately preceding the outbreak of war. Labour unrest had been rapidly growing in intensity; capital was continually being hampered, production impeded, and the public inconvenienced by industrial disputes; and but for the outbreak of the European War, it is not unlikely that we should have found ourselves involved before long in an industrial struggle on a much larger scale than those hitherto witnessed. The wages of large classes of labour were below the point necessary for the maintenance of a decent standard of life; there was always a considerable amount—at times a great deal—of unemployment; many of the Trade Unions were unable to maintain the discipline amongst their members which is essential to efficient production, because they dared not expel them from the Unions for fear of the effect on standard rates of their competition in the labour market; and the non-unionist question was a cause of constant friction. The better employers were not able to grant the conditions and the wages which they would have been willing to give for fear of the competition of their less competent or less scrupulous rivals; while inquiries into the conditions under which large masses of the population lived in the mining villages and in the large manufacturing towns, to say

nothing of the agricultural labourers, revealed a state of things which was a disgrace to any civilized country. If we cannot at any rate lay the foundations of something better than this when the time comes, the industrial outlook is indeed a matter for despair.

And yet it is back to the old state of things that we shall inevitably drift if we attempt to deal with the immediate problem of reorganization without reference to the more distant future, and without keeping in mind more far-reaching reforms. The fact that reorganization will become necessary immediately on the conclusion of peace provides a great opportunity for the reconsideration of many problems—an opportunity which would hardly have occurred but for the War, and one which certainly must not be lost.

The position of the Trade Unions has been greatly affected by the War, and must necessarily come under consideration with the declaration of peace. Many Trade Union regulations have been abandoned, and some it will be impossible for the Government, with the best of intentions, to restore. Is it not possible that new regulations may be devised, which will be not merely more advantageous to the workers than the old ones, but less detrimental to industry? Will not the time be ripe for a full and frank discussion of the position of Trade Unions between employers and employed; and could not the State do much by promoting such discussions, and by undertaking to enforce the agreements arrived at?

Unorganized labour will, no doubt, present difficulties, but in most of our large industries, at any rate, the Trade Unions are strong enough to be able to speak for labour as a whole; and there seems no particular reason why agreements arrived at between the Trade

Unions and the employers should not be made to apply to unorganized labour as well. In fact, it would be well if any satisfactory agreement reached between the best organized and most competent sections in any industry were made as far-reaching as possible. Agreements binding employers of average competence, who had reached the average level of organization in any given industry, might be enforced on all employers in that industry. The result might be, no doubt, that the weaker would ultimately go to the wall, but this might be to the advantage of the industry as a whole; and as their share in it would sooner or later be taken over by more competent firms, we should only be doing in an orderly and methodical manner what competition is supposed to do, and does, but in a haphazard way.

It is impossible in an introductory chapter to attempt to deal with anything like all the problems of reorganization which will have to be faced, or to show how they may be approached so as to lay the foundations of a better industrial system. The question of the relations of Trade Unions to those responsible for the control of industry has been taken because it is one of the most important, and because it appears to afford a good example of the way in which the reorganization of industry on a peace footing may be combined with reorganization on a new footing.

The keynote of this book—in so far as it can be said to possess a keynote—is the control of industry; and it is this idea that has been at the back of the minds of most of the writers—at any rate, in connection with the suggestions they have made towards reform. The phrase “the control of industry” is one which has been a good deal in the air of recent years. It is perhaps a little vague, but it is, nevertheless, at the root of the

Socialist movement as well as of more recent developments such as syndicalism and guild socialism. Applied to the industrial system as it is to-day, the problem of the control of industry should mean the proper apportioning of control between the employers, the owners of capital, the workers, the consumers, and the State; but as applied to a quite different industrial system it may mean the supersession of those who hold the reins to-day by one, or another, or by a combination of the other factors in the situation—*e.g.*, the supersession of the employing classes by the State, or by the State and the workers together.

What is generally meant, however, by the phrase as used at the present time is the possibility of giving a larger measure of control to the working classes. It is often imagined that the main cause of labour unrest is discontent with regard to wages, and that the principal, if not the sole motive of labour agitation is the desire for more money for the workers. This, however, is not the case. Most working men and women would, of course, like higher wages, just as most people in other classes would like larger incomes; and many of them are convinced, no doubt, that they, who do the hardest work, get a very small share of the produce of industry, while others, who as it seems to them do very little, get a very large share.

But the workers want more than higher wages. They want greater security as regards employment, and better provision for their old age; the opportunity of taking a greater interest in their work; and more freedom as to the ordering of their own lives. It is not merely discontent as to wages, but dissatisfaction with their lives as wage-earners, that lies at the heart of the trouble. This is not often very articulately expressed

except by the more thoughtful amongst them, but it is there, notwithstanding; and it is felt, perhaps almost unconsciously, by many who never put it into words.

Profit-sharing and co-partnership schemes do not provide the remedy, for the workers, generally speaking, do not desire to have anything to do with profits, and they think—not without reason—that if a business is able to allow them a share in profits, it is able to give them an equal amount in the form of higher wages. Nor do they desire to take part in the actual arrangement of the businesses in which they are employed. They have no wish to be responsible for the purchase of raw material, for the raising of capital, the marketing of the product, etc. Few of them have the time or the knowledge requisite for the carrying out of such operations. What they desire is, rather, more voice in the actual arrangement of their work, and less interference from overlookers and managers. There seems no reason why this should not be granted them, if they are willing in return to guarantee workshop discipline and the utmost efficiency.

The change would, no doubt, involve a good deal of reorganization in workshop methods, and it might not be immediately practicable in all industries; but experiments might be tried in some of our leading industries, and, if successful, gradually extended to others.

With so much of production carried on by machinery, which must almost necessarily involve much monotony and a lack of interest in work, it is not easy to see how a great deal of the labour of the community can be arranged so as to afford much real satisfaction to those who carry it on. But shorter hours and a happier life generally, with greater freedom from anxiety, would do much to compensate for the tedium of monotonous toil. “A

fuller industrial education might be a means of increasing the interest of the workers in some kinds of labour.'''*

The provision of greater security against unemployment and of greater help towards maintenance in old age are both matters which will be well within the range of practical politics after the War. The one is largely a matter of the regularizing of employment and the extension of the principle of unemployment insurance. The other could be met in a great measure by pension schemes. There seems no good reason why skilled engineers, for instance, should be in a less favourable position as regards regularity of employment and provision for old age than civil servants.

Reforms such as these, however, do not touch the question of the control of industry, taking the phrase in its wider sense—or that in which it is used by syndicalists and guild socialists. It can hardly be doubted that after the War, if we are to obtain the maximum of output with the minimum of friction, the Trade Unions will have to be given much more voice than hitherto in the control of industry, and they will have to be taken much more into the confidence both of employers and the State than formerly. This will no doubt be a step

* "The worker . . . must not merely know one side of the industry; he must have an opportunity for what I may call a full industrial education, an education which will enable him to understand all the pre-things—the things which go before the material which he is handling day by day in his own industry. He must know all about the raw material on which he works, the source from which it comes, where and how it is produced, and the condition of the people who are engaged in producing it. He must also understand the road by which it comes from its source until it reaches his hands. He should also know all about the after-things in connection with it, the purpose of the commodity he is producing, its destination, and the road it has to be sent to reach it."—*The Reorganization of Industry*, p. 82. (Ruskin College: Speech by Mr. W. Straker, Secretary to the Northumberland Miners' Association.)

in the direction of further working-class control, while it will afford the workers some of the experience they will need if they are ultimately going to take anything like complete control, even under the direction of the State.

There is much that is very attractive in guild socialism; but the time has not yet come when any of our national industries could in the best interests of the community be entrusted to the control of the workers, even if such control were checked by the community as a whole. How far distant this time is depends very largely upon how rapidly developments take place in our educational system. When one or two generations of the working classes have had the advantage of a free elementary and secondary education up to the age of eighteen, and equal opportunities with other classes of entering the Universities, the ideals of the guild socialists may be much nearer realization.

Any view of the future of industry which does not look beyond the shores of the United Kingdom, and even beyond the boundaries of the British Empire, is one which is dangerously limited; and any solutions of industrial problems which leave out of sight the fact that we are but one nation amongst many are certain to lead to disappointment. The War, if it has taught us anything, should have brought home to us how closely the industry, trade, commerce, and credit machinery of any one nation are bound up with those of all the others, and how a shock to the economic arrangements of any single country is felt almost instantaneously throughout the world. The United Kingdom is, after all, only one unit in a great economic system, and this fact should never be forgotten—not merely in

relation to questions of foreign trade, but also in connection with all projects for industrial and social reform. Reform at home should as far as possible go forward side by side with reform in other countries.

It is not, of course, intended to suggest that we in England should stay our hand and postpone reform until other nations are ready or willing to carry out similar measures. We should not hesitate, *e.g.*, to abolish sweating at home on account of its continuance in France or Germany; but we should remember that its continuance there may curtail the advantages which could be derived from its abolition here.

After the War a strong international Socialist movement and a strong international Trade Union movement will be more than ever necessary; but if they are to do really effective work, the peoples of different countries must know more about one another than they did before the War, and in order to know more about one another they must learn each other's languages.

It is, however, in connection with foreign trade that it is most important for us to realize this fact—that the United Kingdom is but one unit in a great economic system, for the future of our national industry must depend very largely on a satisfactory settlement of our foreign trade relations after the War. A policy of isolation as regards foreign trade is unthinkable so long as we are dependent on other countries for so much of our food and raw material. How far the Empire could be made self-sufficing is a matter for speculation; but the Empire, though a larger and more important economic unit than the United Kingdom, is still, after all, only a unit in a great economic system, and the adoption by the Empire of a policy of isolation as regards foreign trade, though more possible than a national policy for

the United Kingdom, would be hardly less disastrous from the world point of view, because it would not tend towards the maintenance of international peace.

If, when this War comes to an end, the leading nations of the world are going to start once more on the race for armaments, devoting a larger and larger proportion of their resources to preparations for another struggle, each endeavouring to breed and train the largest population capable of bearing arms—preparations which can only end in the massacre of men, the destruction of wealth, and the ultimate shattering of civilization: if this is what we have to look forward to in the future, then the discussion of problems of industrial reorganization is little better than a waste of time.

But this book has been written in the belief that the cause of civilization will triumph, and that the world is not destined to sink back into barbarism.

II EMPLOYERS AND PROPERTY

I.—CAUSES OF INDUSTRIAL UNREST.

At the present time, in any discussion, but especially if it has reference to problems of industry, anyone who wishes to make a statement which may reasonably be expected to pass without question only needs to say that things will not be the same after the War as they were before. The tremendous upheaval is expected, in some way, to have the effect of presenting everything in a new light, with the result that difficulties which have seemed insuperable will have become manageable, and remedies, previously thought of only to be dismissed as utopian, will have become practicable. That which has shattered so many ideals, given the death-blow to cherished aspirations, clouded the outlook of visionaries, is really the herald of a new era pregnant with vast possibilities.

In this chapter it is not intended to criticize these views and beliefs. A belief in the possibility of attainment is its necessary precursor, and ought rather to be welcomed. But it may be said that if views and beliefs (especially such as are expressed under the stress of circumstances the influence of which will decline with the intensity of the crisis) are to be of much avail, they must be based upon a clear notion of what is involved in the problems which have to be dealt with, and solu-

tions framed accordingly. Moreover, a survey of events in the industrial world during the course of the War does not give great hope that the elements of the problem will be very different afterwards from what they were before. The economic system which, whatever its defects, represents the answer given by society to the immense problem of providing for the wants of its members, is not likely to be appreciably easier to modify. Schemes of reform which may be successful would have had a strong chance of success had they been introduced previously. The most likely change will probably be seen in an increased willingness to make experiments and in a stronger determination to give them a fair trial.

As is well known, for a considerable time before the outbreak of war industrial unrest had been prevalent, and demands were being made for radical changes. It is not enough to dismiss the phenomenon with statements that unrest is a periodical occurrence, that economic history is not a record of placid industrial peace, and that demands for change, and resistance to it, have been known before. It is also useless to attempt to find a full explanation in such facts as the increased cost of living which has marked the present century, or that, in recent years, labour organizations have assumed a more rampant attitude. The former, no doubt, has had its effect; the latter is a symptom rather than a cause. It is evidence of something deeper than a passing discontent which time and a burst of industrial prosperity with a levering-up of wages will remove, although, doubtless, such would have a temporary subduing effect. Further, the argument that discontent is confined to a small proportion of the workers, and that it is not really so widespread as

appears, cannot be accepted as a penetrating analysis of the situation. The articulation of the discontent is naturally confined to a comparatively small number, and it is probably true that many are little disturbed; but the significant fact is that there are few workers at the present time who believe that the existing economic arrangements of society are equitable as regards the position of labour. On this ground, rightly or wrongly—and the fact should be recognized—great masses are dissatisfied with the economic system, and are convinced that the only method which will avail is to effect a change.

Criticism of the economic system by the intelligent worker runs along two main lines, and, in view of what follows, it is advisable to notice the criticism at this point. On the one hand, it has reference to the distribution of what is produced; on the other, to the terms and conditions under which labour plays its part in production. Between the two there is a close connection; indeed, it is impossible to separate them; but they are distinct in thought, and it is well always to bear the distinction in mind. As regards the first, it is, of course, the striking inequalities which attract attention. Inevitably they are linked as cause and effect. No amount of argument will convince that there can be disparities of capacity corresponding to the disparities of income, and a statement that possession of property as well as capacity must be taken into account does not count for much. To assert that if the national income were equally divided, some families, not very affluent, would be worse off than they are at present, is to ask for the reply that if the one to whom the assertion is made is above the limit, he is willing for a change, if, as a result, glaring inequalities can be removed. The

contention that no matter what the income of particular individuals may be their capacity for expending it solely upon themselves is strictly limited, carries no weight. A comprehensive answer to all such arguments is that an economic system is not satisfactory in which wealth is distributed as it is. It would be readily admitted that under the existing system the present distribution is more or less inevitable, and the great inequalities are stressed as an argument in support of a change. But it should not be inferred that the average worker either anticipates or believes in an equal distribution. His central difficulty is that he is not convinced that services rendered are recompensed according to their economic value. In his view, large incomes are much more due to the fact that the recipients occupy privileged positions compared with that of labour, and that they have a greater control over the amount which accrues to them.

An analysis, however, which traced all discontent to inequalities in the distribution of wealth would be incomplete, although, as mentioned above, this cause cannot be left out of account, when considering the other line of criticism. This cannot be stated quite so definitely as the one relating to distribution, but as a cause of discontent it is of equal, if not of more, importance. To understand the position, a fact must be remembered, sufficiently obvious, but not always sufficiently recognized, that when the term "labour" is used to denote a class of producers, it refers to a multitude of individuals. Labour discontent can never be thoroughly understood as long as labour is thought of in the mass. It is essentially a problem of individuals who look upon the economic system as a means to the satisfaction of the wants of the individual members.

This does not imply a separatist attitude to the extent that a community of interest is not recognized among the workers. The existence of Trade Unions is a denial of that view. But, even so, the fact ought never to be lost sight of that combination does not completely solve the problems of the individual. So far as he is concerned, in matters of vital importance to himself, his position is little altered. Slackness of trade, changes in economic organization, even the disfavour of a foreman or employer, may throw him upon his resources.

It is this possibility which underlies the view that the position of labour is one of instability, and that the normal attitude of the worker must be one of dependence and subservience. But to see its force, the position of the individual worker must be considered, not that of labour as a whole. It is only when the two are confused that arguments adduced to show that workers are subject to no influences to which other factors are not exposed, appear conclusive. When workers are affected, it is quite true that employers and capitalists may be affected in a similar way, but to assert that the position of the individuals concerned is the same is to make a statement based upon an incomplete analysis. Neither is it sufficient to argue that the difference is merely a question of a reserve to meet a time of stress. This is a factor that cannot be ignored, but as regards the point at issue it is not the most important. No one would assert that an employer or capitalist has complete control of his economic circumstances, but it would be reasonable to say that his position in this respect is different from that of the worker. While it is true that the profits of the employer or the interest of the capitalist may cease owing to causes over which they may have had little or no control, usually they

have the consolation of knowing that had they taken an alternative course—as they had the power—the event would not have happened. Business may decline, an important business connection may be lost, but they are rarely faced with the despair of the worker who is told that his services are no longer required. He feels himself a tool to be used or dispensed with when and how it suits the convenience of others—helpless in the grip of a system—while the others feel that they have learned something and must avoid similar mistakes in the future.

To understand labour discontent it is important to recognize this feeling of helplessness. It is present, and exerts its influence not only upon those who find themselves thus cut adrift, but more or less upon all—particularly the more thoughtful—and it colours their whole outlook. From the beginning to the end of their industrial career they feel the instability of their position: they do not feel that it is sufficiently self-controlled and self-determined, but rather that it is imposed upon them. As a consequence, in every scheme propounded by labour which has as its aim a change in the economic system, the question of greater control by the workers occupies a prominent place.

II.—THE EVOLUTION OF THE EMPLOYER.

The general question involved in the criticism of the economic system by labour is the position of workers compared with that of employers (taking them as representatives of a factor distinct from labour) and owners of property.* In any scheme of reorganization, there-

* For the purpose of this chapter the term "property" is restricted to industrial and commercial capital privately owned. Land is dealt with in another part of the volume (Chapter VI.).

fore, it is to be assumed that the position of employers and owners of property will be seriously affected. If this is so, and the change is to attain the end in view, it is evidently desirable that the character of the functions they perform should be clearly understood. Both for their emergence and evolution there must be some economic justification.

At once, it may be said that the justification of the existence of employers and owners of property is contained in the justification of the economic system itself. Its justification is that it is an answer to the problem of providing for human wants, and they have come to occupy the position of factors in the answer. Whatever may be its imperfections, no one would seriously assert that the answer has become less appropriate in the course of time, notwithstanding the fact that the problem has become immensely greater and more complicated. This may be seen by considering its character and what is involved in its solution.

It is a characteristic of human beings that there is no apparent limit to the variety and extent of their wants. As the means for the satisfaction of one are obtained, a variation takes place, or another is disclosed. But evidently until the primary wants have been provided for, others will remain unsatisfied; possibly they will not come within the range of experience. Even if the wants of an individual never extended beyond the primary stage, if the number of individuals increased, a greater volume of wants would have to be met. As we know, population does increase, and how far progress has been made beyond the primary stage as regards wants may be vaguely realized by comparing the more or less satisfied wants of an average individual to-day with those of an average individual centuries ago.

In the provision for primary wants, two factors are requisite in the simplest conditions—labour and natural resources. Productiveness depends upon the efficiency of labour, on the one hand, and upon the response of natural resources to demands made upon them, on the other. If labour is highly efficient, a good response may be secured from resources reluctant to yield to demands, just as the efficiency of labour may be of less account when natural resources are more responsive. But whatever the responsiveness may be at a particular time and place to a demand represented by a certain amount of labour of a given efficiency, it will not continue at the same level if the demand continually increases. If a similar return is to be maintained, the efficiency of labour must in some way be increased. Much more is this necessary if a greater return is to be secured, and this is what is required if wants other than the primary are to have scope for expression and find satisfaction. But, as just mentioned, this is what has occurred. In view of these obvious facts, it is evident that there must have taken place an increase of productive power. As there is little reason to believe that a wide difference exists in the inherent capacities of individuals at different periods, an explanation is not to be found in that direction. It has to be sought in a better utilization of capacity, in more appropriate applications of labour, in inventions and discoveries, the effects of which are seen in the character of the economic system at one time compared with another.

At this point, an important fact emerges relating to the character of the problem to which the economic system is an answer. While the problem may be said to remain always the same, in detail it constantly tends to change. Assuming the wants of individuals do not

change, the problem of providing for a larger population differs from that of providing for a smaller. If the population remains stationary but the wants of the individual members extend, again the problem undergoes change. Clearly, therefore, a change takes place when population increases and wants extend together, which has certainly been the case in modern times in this country. But the most significant point is, that accompanying such changes there must be changes in the economic system. Without these, the others are impossible. Thus, there is a vital connection between the development of wants and the development of the economic system, which would have to be taken into account in any scheme of reorganization. The problem which the economic system has to solve is a dynamic rather than a static problem. The implication is that it must possess a considerable amount of fluidity and adaptability: a stereotyped system would not suffice.

The suggestion in the above reasoning is that the economic system is a product of evolution underlying which is the pressure of an increasing volume and variety of wants. It does not necessarily follow that with every development of the system, those comprised within it will be better supplied than before. The possibility of that depends upon the increased productiveness occasioned by the development. If the problem has been stated correctly, however, assuming an increase of population has taken place, the fact that they were as well supplied would be evidence that the system was not altogether inappropriate to its end. If any justification of employer and owners of property is to be found, it must be sought in the importance of the functions they exercise in its working and development.

In the first place, it is not without significance, especi-

ally as regards employers, that their functions have not always been so definitely concentrated in particular individuals as they are at the present day. Even now, there are many in this country of whom it can be said that their work is an epitome of economic functions. A shoemaker, for instance, in a small way, employing one or two workmen, is not a rare phenomenon. He is clearly an employer, and as it is almost certain that he will spend some of his time doing work similar to that upon which the workmen are solely engaged, to that extent he is a workman. Further, it is reasonable to assume that all the capital he requires for material and stock will not be borrowed, and in so far as it is not, he is an owner of capital, which will be taken into account when he is considering how much he makes out of his business. Finally, it may be noticed, as he will certainly have to do some buying and selling, he exercises functions which allow him to be designated a trader.

Nowadays, individuals so situated are most frequently to be found on the fringe of the economic system, and even there they can hardly be regarded as typical. But they have been typical in time past. The typical craftsman of mediæval times is described as exercising the functions of workman, foreman, employer, merchant, and shopkeeper.* The outstanding feature of present-day industrial organization is that these functions are more or less exercised by distinct individuals, but the position has not been arrived at quickly. A record of the change is an essential part of the record of the development of the economic system.

It does not fall within the scope of this chapter to trace the development in detail, but it is desirable to notice how it proceeds. The dominant principle which

* Unwin, *Industrial Organization*, p. 10.

determines the scope of activity of individuals in the economic system is the principle of specialization. What this means is seen in the obvious fact that, while the aim of each is to satisfy his own wants, few produce more than a small fraction of what they consume. The reason is that by concentration their labour is more productive, and by exchange they can obtain an ampler supply of the commodities and services they require. In the production of a single commodity, the extent to which the principle can be carried is indefinite. Such production consists of an indefinite number of operations, some of which are more important than others, so far as the time required to perform them is concerned. An operation has to attain a certain degree of importance in this sense before it can be economically specialized. As demand extends, operations constantly reach this stage, while others are brought nearer to it. Specialization is, as it were, always pushing further and further back. But the movement continues with the operations which have undergone specialization. They may be taken over by machinery which also may be specialized. Whether a machine will be introduced, or one already in use specialized, is determined in the same way and at the same time as the specialization of operations not yet specialized.

The operation of this principle has to be borne in mind when considering the development of the economic system and the scope of activity of those engaged in it. It is owing to its operation that many functions, previously combined in one individual, are distributed as we find them to-day. The employer as an economic factor distinct from the workman is one of its results.

III.—FUNCTIONS OF THE EMPLOYER.

This brings us to the important questions of the functions of the employer and how they are exercised. As the economic system is organized for the purpose of production, we see that it consists of a large number of industries, and that constituting each industry are numerous specialized business units, which range from concerns similar to that of the shoemaker mentioned above, to the large joint-stock company. In some cases, these units may be combined in the form of a Kartel or Trust, but it is not necessary for our purpose to consider the organization of such combinations. One point which must be emphasized is that the principle of specialization applies to the business units within an industry, and as specialization is impossible without co-operation, they are linked together in innumerable ways. Then again, the industries are specialized, which implies further links; and so we arrive at a conception of the economic system as one whole, a change in any part of which may affect any or all of the others in greater or lesser degree.

The functions of the employer have reference to the initiation, organization, and direction of one of these units. This does not mean that the scope of activity of every individual who is ordinarily called an employer is the same, or that the distinctive functions which belong to the employer may not be exercised by persons who are not ordinarily so designated. The shoemaker would certainly be called an employer, but evidently his range of work is wider than that of a typical employer in the cotton industry, for instance. Of the functions mentioned as probably exercised by the former, it may be confidently stated that that which is ordinarily asso-

ciated with workmen will not be exercised by the latter. How far he will take an active part in buying and selling, or the extent to which he will be the owner of the capital used in his business, it is impossible to say, but it is not unlikely that some of his time will be devoted to the trading function, and it is more than probable that he will own some of the capital. Still, an interview with the employer at his Manchester warehouse, with the object either of buying or selling, might quickly convince the most sceptical that he was applying to the wrong person. A better informed individual would think he had done a good day's work if he could succeed in securing from the employer a kindly reference to the salaried employees whose function it was to attend to those parts of the business. Further, an investigation might possibly reveal the fact that the employer did not own any of the capital involved in the concern. It might be, indeed, that if all the tangible assets were sold, those to whom he was financially responsible would not receive an equivalent of the loans they had made to him. But although he exercised none of these functions, and did not own any of the business capital, he would be regarded as an employer. This is true whether the business is as small as that of the shoemaker, or as extensive as the largest private concern in the country.

It requires no argument to prove that, no matter what the extent of a business may be, it neither originates nor continues its existence without direction and organization. It is also apparent that what is required will vary according to the extent and the character of the business. Remembering that the principle of specialization will operate, it is only in accordance with what might be expected to find differences in the range

of activities of employers. In the economic system we get a gradation from the employer, the direction and organization of whose business requires but a limited amount of his time and energy, to one of whom all is required—indeed, the development may be traced in the history of innumerable firms. In the early stages, the employer exercises many functions which in later stages will be delegated to paid officials, but throughout, his essential functions are the same.

In the initiation of a business there is involved the bringing together of the required forms of capital, the requisite supplies of labour, and the establishment of market connections. The factors have to be organized in relation to the end in view, and while it is no doubt true that the success of the business depends in no small measure upon their appropriateness, the individual who has the insight to see that they are appropriate, and who possesses the enterprise to obtain and organize them, is a factor too important to be ignored. Moreover, a fact which it is important to recognize is that if a business is to be permanently successful, what is involved in its initiation must be continually repeated. This necessarily follows from what has been said regarding the problem which the economic system, of which each business is a part, has to solve. There has to be constant readaptation to changing conditions of demand, and here it must be noticed that, while no change in production can be persisted in to which there is not a corresponding change in demand, the occasion of the change may arise on the productive side. Demand may leave a firm because it can be met more economically by other producers, or because something has been substituted more appropriate than the previous supply. However, so far as any particular business is concerned,

demand remains the dominant factor in the situation. Changes on the productive side must find a response in demand, underlying which are human wants, and success throughout its career depends upon the aptitude with which it plays its part as a factor in the answer to the problem to which these wants give rise, and for this aptitude the employer is ultimately responsible. He occupies the central place in the business unit, and from this point of view his importance in the economic system has to be estimated.

From what has been said, it will be apparent that to view the employer, apart from his probable ownership of capital, as a factor distinct from labour is not strictly correct. Certainly, the functions he exercises are different from those which are performed by the persons ordinarily termed workmen, but it is only in the sense that the functions of the latter are executive, while those of the former relate to organization, direction, and control. How far they will be exercised in detail or be supervisory and general will depend upon the character of the business and the extent to which specialization has been carried.

Here, however, one function of employers of great importance must be mentioned, which does more to set them apart as a factor distinct from labour than anything else. While it is common to all employers, the view taken in this chapter is, that when their functions have been refined to a point at which only this function is left to them, the name of employer almost ceases to be appropriate. Where it obtains, we approximate very nearly to the company form of organization so far as the actual management of a business is concerned. The function to which we refer is that of being risk-bearer of the concern.

What is involved can be clearly brought out in a brief consideration of how the employer's remuneration is determined. That which is received by an employee is, of course, usually called wages or salary. That which accrues to the employer is equally well known as profits, and the difference is more than a difference of name. An employee, whether his income is £1 a week or £1,000 a year, knows that he is entitled to, and can insist upon receiving, the amount so long as the employer has any resources, and the law any power. Assuming the employer is working with borrowed capital, the same is true as regards its owners in respect of interest, but it is not the same with the employer's remuneration. He has not, and cannot have, a contract with anyone as to the amount he shall receive, neither can he know beforehand what the amount will be, or whether it will be a plus quantity at all. No doubt he had good reason to think when he decided upon being an employer that he would at least receive a certain remuneration, but even then he would probably have in mind a considerable period. On the assumption, therefore, that all the capital used by an employer is borrowed, and that he is under a contract to pay interest upon it (and such a contract will certainly exist as regards the labour he employs), his remuneration, taking a definite period, consists of the difference between the amount received for the product of the business, and the amount which he has to pay to labour, and to the owners of the business capital, along with other expenses, and this difference may be a minus quantity. As employer, he undertakes the risk.

Although the functions of the employer have been considered as distinct from those of the owners of capital—and analytically they are quite separate—this

must not be taken to imply that they are rarely or never combined in the same individual. While it is not unusual for an owner of capital not to be an employer, it is unusual for an employer not to own at least a portion of his business capital, and, if he does, the interest upon it will be an addition to his remuneration as employer, and ordinarily when his profits are spoken of both will be included.

IV.—FUNCTIONS OF CAPITAL.

In restricting the term "property" to industrial and commercial capital privately owned, there is no suggestion that the economic significance of property is confined within these limits. But it may be said that property thus used is more immediately important to the working of the economic system than that which is used directly as a means to the satisfaction of the wants of its owners. Moreover, in this restricted sense, private property occupies a position similar to that of employers. Both are important factors in the existing system, and as it is not an absolute failure, they have, at least, a *prima facie* justification.

The advantages of the use of capital in economic processes require no illustration, particularly when it is embodied in the form of a productive appliance which enables a certain end to be attained with a less expenditure of effort than without it. The advantages are not so obvious, but they are as real, indeed of the same character, when the capital does not assume such a form, but is used in commerce. For instance, there are few people who would not recognize the utility of the machinery in a Lancashire cotton factory. If the cloth which is being manufactured is destined for the

Turkish or Egyptian markets, it will be delivered to a shipper in Manchester, who will pay the manufacturer almost immediately. But when the shipper despatches the goods he will probably have to wait for a period of six months or so for his returns. Most likely he will have no machinery, his premises may not be very large or elaborate, but he may be using more capital in his business than the manufacturer from whom he bought the cloth, and it is being used to as much advantage, not only as regards his own gain, but in relation to the whole string of processes through which raw cotton passes before it reaches the consumer.

In the two establishments we have good examples of the use of industrial and commercial capital. One facilitates the actual production processes, and the other, the appropriate distribution of the products to purchasers. In both cases, capital is necessary, and as a consequence of its use the economic system can more adequately fulfil its purpose. But the illustration states the actual facts far too simply. Assuming the manufacturer and the shipper own the capital they use, it appears that we could designate one industrial, and the other commercial, capitalist, and similarly throughout the economic system. But the manufacturer will, in all probability, have some capital in use much in the same way as the shipper. If he has bought his yarn from a spinner and paid for it at once, the capital absorbed until the cloth is delivered to the shipper will be performing a similar function to that which the shipper uses. This fact would be seen quite clearly if he had obtained the yarn from someone who allowed him credit for a period sufficiently long to enable it to pass through the manufacturing process and to be disposed of to the shipper. Again, it is con-

ceivable that the manufacturer might not receive payment from the shipper at once. He might wait for a period of two or three months, or even until the time when the latter received his returns. It needs very little consideration to see that the commercial capital required before raw cotton becomes a finished article may be provided in a variety of ways. If the cotton-planter were prepared to wait for his returns until the cloth had been sold and paid for, he would provide capital to the amount represented by the value of the cotton. If the spinner, the manufacturer, and the shipper were prepared to do the same, they would provide capital represented by the cost of spinning, manufacturing, and shipping, respectively. But the possible complications are so various that generalizations as to what actually does take place can be made only with many reservations. A small manufacturer, for instance, especially in a time of bad trade, often seeks assistance from an agent from whom he purchases his yarn, or one to whom he disposes of his cloth, and although these are men who apparently will use any capital they possess in commerce, they may virtually own a large portion of the manufacturer's business.

In the illustration given above, whatever may have happened previously, the shipper provides the whole of the capital when the goods are delivered to him. His capital is used pre-eminently in commerce, as that of the manufacturer, as a general rule, is used in industry. A point which must be emphasized is, that in the financing of industry and commerce on these lines, those who undertake it in addition to their command of capital invariably occupy a position which enables them to acquire, and to maintain, adequate knowledge of the circumstances relevant to its safety. Thus situated,

they play a great part in the development of economic enterprise in cases where a less detailed knowledge would be insufficient. This is a fact of extreme importance in relation to the working of the economic system and its development, and cannot be too strongly emphasized. It is here, especially, that the individual possessing capital with freedom to use it as he will is seen as an economic factor of great significance. Not infrequently upon his actions depend far-reaching results.

It is a truism to say that the course of economic development has been marked by an increasing use of capital, but it is not so evident, perhaps, that the most important immediate cause of the development has been that capital existed for which its owners were anxiously seeking profitable employment. Economic development, when viewed over a long period, assumes a spectacular aspect, but when considered in detail, some of the glamour disappears. It is seen to have consisted, particularly as regards new branches of enterprise, in one individual striking out here and another there, whenever an apparently favourable opportunity presented itself, and there is no one so likely to be a pioneer as the individual who is restless in the possession of unused capital. If his venture proves successful, he almost necessarily extends its scope; larger capitals and more elaborate organizations than those with which he commenced, also appear. When a certain stage has been reached, attention is devoted almost entirely to these, but as a rule, in an explanation of economic development, the enterprising individual who has an idea, and a small amount of capital, is of more fundamental importance.

Whatever questions may be raised by a consideration

of the economic history of this country during the Industrial Revolution period, it would be generally admitted that it was a time of great economic development. A view which suggests that new forces entered the economic world, that the characters of individuals were transformed, almost, that a new interpretation of economic development became necessary, has no basis. So far as the fundamental character of the movement is concerned, it was different in no essential respect from what it had been before or from what it has been since. Undoubtedly, problems of tremendous importance were forced conspicuously to the front, a reference to which falls outside the limits of this chapter. It may be said, however, that an explanation solely or even predominantly economic is inadequate. A study of State policy in matters other than economic yields fruitful results, showing, as it does, that there was scarcely a movement which might have altered the situation for the better, and profoundly influenced the course of events, which was not interfered with.

Of the industries which made great progress during the Industrial Revolution period, the most typical is the cotton industry, and fortunately its development can be traced in some detail. The superficial facts are well known, and it is unnecessary to quote any statistics. It is more important to know something of the organization of the industry, and the lines along which the different constituent business units developed.

One of the most important individuals in the organization was the Manchester cotton merchant, whose function it was to sell the raw product to spinners. It was not absolutely necessary that the spinner should purchase his cotton from the merchant. He might have gone past him and bought it at Liverpool, but it is

improbable that many did so. The reason was, that if they purchased at Liverpool they had to pay for the cotton almost immediately, whereas the merchant would allow them several months' credit. As a consequence, it was possible for men who possessed a smaller amount of capital than would otherwise have been requisite, to commence business as spinners. Owing to the long credit terms they were enabled to spin the cotton, dispose of the yarn, and as it was sold on shorter credit terms than those allowed by the cotton merchant, receive payment before they had to meet his account. What the spinner used to do whenever possible was to sell his yarn to a merchant, similar to the one from whom he bought his cotton, who could buy on very short credit terms, often, indeed, for cash. It is practically certain that this merchant then disposed of the yarn in the same way as the other disposed of the cotton. While one financed the spinner to the extent of the cost of his cotton, the other financed the manufacturer to the extent of the cost of his yarn. The significance of these merchants, who apparently were men with capital, can hardly be over-estimated in a consideration of the development of the cotton industry in its early stages.

But to understand the rapid progress of the cotton industry, it is equally necessary to notice the development of the spinner's business and the methods he pursued. It is known that several of the most successful cotton-spinning firms began by making cotton machinery, with which they combined, or to which they added later, a little spinning. After a time they ceased making machinery and concentrated solely upon spinning. In an explanation of the change, the fact that cotton could be purchased on long credit terms would

certainly have to be taken into account, but in addition, stress would have to be laid on the fact that the firm had probably acquired more capital than could be profitably used in extending the machine-making side of its activities. To extend the spinning side necessarily involved the use of capital which could be embodied in a fixed form yielding slow returns, and it is unlikely that this would be obtained on loan.

But here another significant point emerges. So long as the spinner was in a position that he had to depend largely upon merchants who would buy on short credit terms, his market for yarn was limited. To extend, he had to turn some of his capital into commerce and use it in the same way as the merchant used his. Consequently, we find that as the capital of the spinner increased, he began to consign his yarn to commission agents who sold it on long credit terms—viz., five or six months, and only made returns to the spinner this length of time after selling. The spinner did not receive payment for yarn sold, say, in January until the June or July following.

Briefly, therefore, as the capital of the spinner increased, he divided it into two portions. One portion he used commercially and extended his market, the other he used industrially and enlarged his factory. In this way, firms which began with a small amount of capital rose to great eminence in the course of a few years. The development can be traced even further, but the trend is, perhaps, sufficiently clear. As the capital of a firm increased, the tendency was to turn it in those directions in which it would react most favourably on the business in which it had been made, and open the way for further development.

A consideration of the development of firms other

than those in the cotton industry shows that this movement was general in the Industrial Revolution period. In the history of the firm of Boulton and Watt, for instance, a stage was reached when they had to invest capital in Cornwall mining adventures, in order to maintain a market for their engines; and in the case of Wedgwood we see a similar movement, but on rather different lines. As his pottery gained a reputation, he was confronted with difficulties in the way of obtaining a sufficient supply of materials, and of disposing of his goods, owing to defective means of transport.* In view of the situation, it is not surprising to find him an ardent advocate and financial supporter of schemes for the improvement of roads and construction of waterways. The important fact with him was not so much the dividend he would receive on his shares, as the effect better means of transport would have upon his pottery business.

The suggestion here is, however, that the movement is not one confined to any particular period, but that it is fundamental in economic development at all times. Further, it is not, as a rule, an obtrusive movement. It consists most frequently of the tentative action of individuals seeking outlets for unemployed capital, and the most likely outlets are those which open out as a result of their previous actions, and consequently with which they have that close acquaintance which is an important factor in successful ventures. It is such individuals who have always been in the vanguard of economic advance. The possession of capital gives the impulse, and unfettered freedom in its disposal the liberty, to embark upon any line of enterprise which offers the possibility of fruitful results. If they suc-

* Smiles, *Lives of Engineers*.

ceed, it is, of course, immediately advantageous to themselves, but their actions have a wider significance than their own success. There is the effect upon the economic system. We have noticed at length the purpose for which it exists and the character of the problem to which it is a solution. As we saw, the problem is such that a final solution, complete in detail, never has been, or is likely to be attained. It is one which requires a continuous solution, a vital factor in which is the individual, quick to see and to seize opportunities of development. This is a fact of considerable importance in considering the different types of business unit in the economic system. It suggests that those controlled by employers who own a large part of their business capital are likely to be more appropriate in new branches of enterprise, and in conditions liable to change, than those in which control and capital are not so concentrated. Looking at the matter from this point of view, we see that although the essential functions of employers are distinct from owners of capital, in many cases they are likely to be, and indeed are, almost necessarily united in one individual.

V.—THE JOINT-STOCK FORM OF ORGANIZATION.

If what has been said so far concerning the parts played in the economic system by employers and owners of capital is correct, it is evident that they do perform useful functions. But before definite conclusions are arrived at as to their indispensability, certain developments in economic organization, especially during the latter part of the nineteenth century, must be considered. As a result of these developments, the joint-stock form of business unit has come prominently

to the front, in which there is no particular individual to whom the term "employer" is applied, neither is the capital usually owned by those who use it. Consequently, it might reasonably be argued that the importance of employers and owners of capital, as stated above, must be subject to considerable modification. At this point, therefore, it will be well to consider the position, so far as it is relevant to this discussion.

At the outset, it must be recognized, in view of the amazing extension of joint-stock enterprise during the last fifty years, that it would be rash for anyone to attempt to define strictly the limits within which companies may successfully exist. At the same time, it cannot be assumed that a company must succeed in every case, except where another form of organization would fail: one form may possess advantages on account of which it is more appropriate than another in certain conditions. But it is not simply a question of defining certain conditions as appropriate to the existence of a company, and others as appropriate to the existence of a private firm, for often we find both forms of organization existing together in the same conditions.

Still, a fact which emerges from a survey of the economic system, is that the company form of organization does predominate where certain conditions obtain, and the reasons are fairly obvious. As regards the acquirement of a very large capital, a joint-stock concern easily has the pull over a private business. No one individual, or even two or three constituting a partnership, are likely to possess the amount required; and even if they did, it is improbable that they would be willing to risk it in one enterprise. Large capital in itself, however, is not sufficient in every case to rule out the private business. It must mean either that the

enterprise could not be entered upon with a smaller amount, or that definite advantages result from a large-scale enterprise which outweigh any comparative advantages which one organized on a smaller scale may possess. We get obvious examples of the first case in transport undertakings, such as railways and canals, where a large capital is absolutely necessary.

But the second case is more important in this discussion. Here, a very large capital may not be absolutely necessary to the carrying on of the enterprise, but necessary if it is to be carried on as economically as it might be. Owing to reasons often connected with an extension of the principle of specialization, up to a certain point the larger the scale upon which a business unit is organized the greater tends to be the return in relation to cost. The point of maximum economy varies at different times and places with the kind of work in which the business is engaged, and with external conditions, particularly those relating to the markets in which it buys and sells; but in every industry there is such a point, and the typical business units tend to reach it. In cases where great economies can be secured by large-scale organization, and very large capital is required to make it possible, the private concern is thus doubly barred.

Here, certain facts connected with the organization of the two forms of business unit become important. We have seen that in a private firm the employer is ultimately responsible, and upon him the incidence of its success or failure mainly falls. In the vast majority of cases the business is carried on under his supervision, and, more frequently than not, the more responsible work will be actually performed by him. He has every inducement to maintain the business in a high state of

efficiency, and has the power to do whatever he sees fit to secure its success. The characteristics of a private concern ought therefore to be enterprise, energy, unity of purpose, and quickness of action, and a business in which these are prominent is in an exceedingly strong position. They are sufficient to offset many advantages of a more automatic character which others may possess. In certain branches of enterprise, and in the early stages of an industry, they are of vital importance: probably they were never more so than in the cotton industry in the Industrial Revolution period. Even if the company form of organization had been as common then as it has become since, it is almost inconceivable that business units so organized could have maintained their position alongside private firms, or have accomplished what they achieved.

But at the present time the cotton industry, especially in one of its branches, is almost entirely run by joint-stock companies. A recent investigation has shown that in Lancashire, in 1911, less than 16 per cent. of the spinning firms were private concerns, although, in 1884, they constituted over 77 per cent. In the weaving branch the movement has not proceeded so far. In 1911, nearly 48 per cent. of the weaving concerns were still private firms; but the fact that the figure was over 91 per cent. on the previous date, strongly suggests that their day is passing away.* However, there are reasons for thinking the change will not be as sweeping as it has been in the spinning branch of the industry; but before mentioning these reasons, the main features of the company form of organization may be noticed.

As already mentioned, one peculiarity about this type

* Chapman and Ashton, *Journal of Royal Statistical Society*, April, 1914, App. Tables I., VIII., IX.

of business unit is that it includes no particular individual to whom the name of employer is applied. But no one would suggest that the functions which have been attributed to him in a private concern are therefore eliminated. They are exercised, but, apart from the function of risk-bearer, they are entrusted to persons engaged and paid for their services in the same way as a workman of the company. They are distributed among directors, managers, and foremen. In all probability some of these, especially the first-named, will bear some of the risk of the concern, but not so much on account of the position they occupy as because they are shareholders in the company. In the shareholder, the functions of risk-bearer and owner of capital are combined. As a body they may be regarded, owing to their power of appointing directors and criticizing their actions, as controlling the concern, but not infrequently the power is more apparent than real. In a large company they not infrequently possess little coherence, and it is almost impossible for them to formulate a constructive policy; at the best the control they exercise is of a negative character.

In contrast with the private concern, the salient points are that the ultimate control rests with shareholders, who participate in the gains proportionately to their respective holdings, and whose liability is limited to their share capital. Although this may amount to a large sum, it is improbable that it will amount to the whole of the wealth of a shareholder, and in few cases will the dividend he receives from one concern constitute a large proportion of his total income. He will certainly be interested in the success of the concern, but his interest is hardly likely to be so keen as that of an employer who receives the whole of the profits of

his business—determined as indicated earlier in the chapter—and whose liability is unlimited. But, further, no matter how keen the interest of a shareholder may be, he is only one of many, and it does not follow that what he thinks necessary to success will commend itself to the majority. Even if he happens to be appointed a director, there is still the possibility of divided counsels, especially in matters which involve decisions uncertain in their results, but upon which much may depend.

When we come to the question of detailed management, the differences between a large private firm and a company may not seem very great, yet they are too important to ignore. In the latter, the management is in the hands of paid officials, and much of it may be in the former, but, as a general rule, it will not be completely delegated. There are few cases in which the employer does not take an active part in the management of his business, and in these, owing to the fact that he has so much at stake, his supervision is almost certain to be more efficient than that of appointed directors. If it is not, it is a fairly sure indication either that the business is unprogressive, or that the branch of enterprise of which it forms a part is one in which the company form of organization has a strong chance of success. While it may be true, therefore, that we can find both forms of organization existing together in similar conditions, what has been said suggests that there are certain conditions more appropriate to one form than to the other. Each form has its advantages, and there is a point at which, on a balance, there is little to choose between them. The economics of large-scale organization are balanced by more intensive control and management. Where the conditions

are such that intensive control and management are urgently necessary, the private concern will figure prominently, and if the conditions continue, it will not easily be displaced.

As previously observed, these conditions especially prevail when a branch of enterprise is in its experimental stages, when processes are apt rapidly to change, before the time when, at least, general methods of working have been evolved. Further, at all times, if variation—whether on the supply or demand side—necessitating quick adaptation is a marked element in the situation, it appears that the private concern will be more effective than the public company. Where the opposite conditions prevail, the tendency is for joint-stock enterprise and large-scale organization to displace the private concern and ultimately to gain almost complete sway. In the spinning branch of the cotton industry these conditions are more fully realized than in the weaving branch; hence the result mentioned above. The main reason adduced why the joint-stock form of organization has not extended so far in the weaving as in the spinning, is that demand for manufactured goods is more susceptible to change than the demand for yarn. It is in districts which produce for the comparatively stable Eastern markets that the joint-stock form tends to predominate. In other districts where production is carried on for more changeable markets, it is still greatly outnumbered by the private concern.*

At this point, however, a fact hinted at several times in the course of this discussion must be noticed. Nearly a century and a half ago, it was stated that the only trades which it was possible for a joint-stock company

* Chapman and Ashton, *Journal of Royal Statistical Society*, April, 1914, p. 488.

to carry on successfully, assuming it did not possess a monopoly, were those where the operations were capable of being reduced to a routine. At that time, only three trades—banking, insurance, and transport—were enumerated as suitable.* This enumeration would now be regarded as inadequate, but the principle enunciated is still important. Since that time, routine has become possible in other directions, and with the extension the scope of joint-stock enterprise has widened. Specialization, large-scale organization, and joint-stock enterprise are closely connected. The paramount effect of specialization is to simplify complexities, both in the sphere of thought and of action. It is a consequence of concentration. Routine in the economic sphere implies a regular, unvarying course of action, and this emerges as a result of specialization, and the requisite conditions for its operation are most fully realized in undertakings organized on a large scale. Where large capital is required, and great risk involved, or where a considerable time must elapse before returns can be expected—especially in enterprises which are still frequently described as “adventures”—the company form of organization may prevail from the beginning, and even act as a pioneer of private enterprise.

But in a view of economic development, a tendency to be avoided is that of allotting to such instances a larger place than their importance merits. In the forefront of the main stream of economic movement it appears that private enterprise, almost necessarily, must occupy a more important place. A statement that one of its functions is to prepare the way for enterprise of a more public character, could claim much support from what is revealed by a close study of

* Smith, *Wealth of Nations*, bk. v., ch. i.

economic development. In the nineteenth century we see the transition continually taking place in many directions. When this stage has been reached, it is comparatively easy for business units, organized from the beginning in the company form, to appear. To refer to the cotton industry again: in the paper previously referred to, it is shown that of the spinning concerns existing in Lancashire in 1911, of 553 then organized as companies, 145 had, in all probability, commenced as private firms, and in weaving the same applied to 261 out of 445.*

From what has been said, the inference appears to be, when we remember the purpose for which the economic system exists, and what is involved in its performance, that there is a sphere of activity in which the private firm is, and seems likely to remain, the more appropriate form of organization. The fact that in many directions it has been displaced, and that in the course of economic progress the displacement may continue—indeed, such displacement is implied in the reasoning of this section—does not detract from its essential importance. At present it is a vital factor in the efficient working and development of the economic system, and, so long as this is so, it appears that private employers and owners of capital (which they are at liberty to utilize in industry and commerce at their own discretion) perform functions of such importance that they cannot lightly be dispensed with.

It is not improbable, in view of the developments now taking place in scientific business organization, the tendency of which is to reduce methods to a rule, that the efficiency of the company form of organization may

* Chapman and Ashton, *Journal of Royal Statistical Society*, April, 1914, App. Tables, I., VIII.

increase, and it may be able greatly to extend its sphere of activity. Systems of costing, which enable weaknesses to be detected with ease and rapidity, may do much to minimize difficulties in some directions. But it does not appear that much can be accomplished on these lines to simplify problems that vary from day to day. To solve these, more is required than a stereotyped set of rules. Nothing except detailed knowledge, close attention, and an enterprising spirit, will avail, and these seem most likely to be found in an individual who undertakes full responsibility with its corollary of freedom of action.

VI.—CONCLUSION.

In this concluding section we have to consider briefly the bearing of the preceding discussion on the problem of industrial control—a problem of extreme importance in view of the pertinent criticism of the economic system which labour is able to offer, the lines of which were indicated at the beginning of the chapter. The central point of the criticism was the position of the worker compared with that of employers and owners of capital. It was there pointed out that there was reason for the criticism, and the analysis of the private firm which has been offered, shows how and why the employer does occupy a favoured position. It is involved in the character of his functions as head of a business unit. As such, in relation to each worker he employs, he is in the position of an autocrat. But when he is viewed in relation to the community his position is different. Unless he happens to be in possession of a complete monopoly, he is here a subject, and is far from having complete freedom of action. If he is to maintain his position in the economic system,

he has to respond to external stimuli represented by demand, underlying which are varying human wants. The conditions in which he carries on his business are created for him rather than by him. He is free only to the extent that he can decide what course to adopt in conditions which exist. But whatever the course may be, the interests of the workers he employs are involved in it, and they must act according to his decisions. Consequently, in a real sense, the employer has control of a large part of the lives of his employees, and this is how the situation must appeal to them. Under the circumstances, the problem of control, as the employees see it, must almost inevitably present itself as one which involves a limitation of the power of the employer, and the view is not incorrect. Ultimately, however, the problem has to be considered in relation to the conditions which give to the functions he exercises their importance.

When this is realized, the difficulties involved in the problem of control become apparent, and at once the question is suggested: Can these conditions be controlled? If so, the problem, as it is immediately important to the workers, becomes easier to solve. The point at issue may be illustrated from the history of the past few months. The policy of "controlled establishments" adopted by the Government is well known and requires no explanation. It may be stated with confidence that the problem of control would have been immensely more difficult if the Government had not been in a position to give practically a free hand as regards production. What the situation amounted to was, that there existed an unlimited market, and those who had to supply it could best fulfil their purpose the more they poured into it. If such conditions obtained in normal times, problems of control would be much

simplified. But such conditions are not normal, and this fact has to be borne in mind in considering what can be accomplished on similar lines when the war is over.

This brings us to the concluding point. The suggestion in this discussion has been that the question of industrial control has to be considered in relation to the character of the problem which the economic system has to solve. As presented in modern economic society, while the problem in general remains the same, in detail it is constantly changing, and fluidity and adaptability in the economic system seem essential to its solution. For control to be effective, a large measure of stability of conditions is necessary, as is almost invariably assumed in schemes which are propounded.

It is here where the development which has taken place during the last fifty years, by which the supremacy of the private firm has been seriously challenged by the joint-stock form of organization, and the tendency for it to extend, become highly significant. The significance of the joint-stock form of organization for our purpose is that in it the individual employer does not exist, and that the capital is not generally owned by those who use it. These facts in themselves suggest the existence of a comparative simplicity and stability of conditions, and it is generally true, where companies predominate, that such conditions obtain.

The ultimate solution of the problem of industrial unrest, in so far as it arises owing to differences in the position of labour as compared with that of employers and owners of capital, obviously has to be sought in the elimination of these differences. A form of organization is requisite in which there is a larger measure of common responsibility, and this implies a recognition of the claim

of the workers to a fuller share in the control of their own lives. It does not fall within the scope of this chapter to formulate constructive schemes whereby labour could exercise a greater control, but it is apparent that the control which might be exercised would vary according to circumstances. It appears that the most elaborate and detailed schemes could be introduced—the more detailed compatible with efficiency the better—and have greatest prospect of success where the joint-stock form of organization exists. In view of the fact that, according to a recent return, there are registered in England over 58,000 joint-stock companies, with a paid-up capital of nearly £2,300,000,000,* there is no lack of scope for experiment, and surely time was never more propitious, or the need more urgent. One thing is certain. The claim of the workers to a fuller share in controlling that large part of their lives which is spent in getting a living will have to be recognized somehow. The fact of industrial unrest cannot be ignored. It is blindness to treat it as of no account, and useless to think that it will pass away. On all sides there is pressing need for a calm survey and an understanding of the situation, followed by a conscious effort, taking into account all the facts, to attain a position when each individual realizes that he is, and is in fact, a member of a co-operative body, working harmoniously towards a common end, whatever his particular function may be. We are told that this is the ideal in time of war. Is it less the ideal in time of peace? The object of this chapter has not been to formulate constructive schemes, but to present the situation as it is, without obscuring difficulties, in the belief that a knowledge of what is, is requisite to the attainment of what ought to be.

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III

THE WAR AND THE STATUS OF THE WAGE-EARNER

I.—WAGES AND THE STANDARD OF LIFE.

THE present economic system in England—so far as it is a “system”—is based upon the principle of “free enterprise.” The State leaves economic relations to be settled by free private contracts. Anyone may engage in any business (with a few exceptions), and may sell in any market at any price. Prices are left to be settled by free bargaining between buyers and sellers. Competition is relied upon to prevent either party to the bargain from exploiting the other. The price of labour, by the sale of which the wage-earner lives, is left to be settled in the same way, by free bargaining between buyers and sellers; competition among employers is expected to secure for the wage-earner what he is worth, competition among workers to insure that no one gets more than he is worth. Only recently, and that in cases the conditions of which are specifically exceptional, has the State interfered to fix the wages of any kind of labour. The effect of this free bargaining is, according to the current rather optimistic theory of wages, that wages tend to equal the net product of labour, the supply of labour being what it is, or as it is usually put, wages tend to equal the *marginal* net product of labour.

The social organization that leaves the workers "free" to determine their economic relations by private contract has never evoked much enthusiasm amongst them. They consistently opposed its introduction, resisting the abolition of the apprenticeship and other restrictions on choice of occupation from which they "suffered"; fighting hard to retain the fixing of wages by Justices of the Peace or Parliament; opposing everywhere the abolition by enclosure of the communal element in agriculture; regarding the new Poor Law not as a reform, but as a cruel infliction; talking about their "property" in their trade, and resenting the introduction of the machinery which threatened that property. Their instinct was always to cling to any institution or arrangement that seemed to secure their status; and the share in the great increase in wealth and the opportunity of rising out of their class which the system of free contract has given them, have never reconciled them to the instability of status that it involves. .

It is with wages alone, however, that we are concerned here, and in this connection the reaction of the workers against the system of free contract has had two chief objects:

1. To prevent the exploitation of their weakness in bargaining; and
2. To prevent the constant fluctuations which the constant variation in the demand for goods and services tends to produce in the value of the labour engaged in supplying the goods and services.

They have been so far successful in attaining these objects that the position of the average wage-earner, unorganized as well as organized, has a stability that one would not have expected *a priori* in a society which

left wages to be settled entirely by private contract; the value of labour fluctuates less than the values of most commodities.

This element of stability can be illustrated by a comparison between wages (the price of labour) and the prices of the produce or stocks and shares sold on the Exchanges, which economists take as the typical markets of the present economic system. In the latter, values are constantly being adjusted to changes in supplies and demand; every influence affecting either supplies or demand, unless cancelled by some countervailing influence, is reflected at once in the price-list. In the labour market, on the other hand, values are relatively rigid, and supply and demand are adjusted to them. It requires a great and long-continued falling-off in the demand for the products of their industry to induce the workers in an organized trade to consent to a reduction in the value of their labour—*i.e.*, in the standard rate; if the alternative to a temporary reduction in the rate is a reduction in output and less work, they explicitly prefer that alternative. On the other hand, they are slow to demand an increase in the standard rate when the demand for the product of their industry is rising fast. While values tend, in the case of produce, to move so that the entire supply will always be taken up, in the labour market the seller gets a comparative fixity of value at the cost of fluctuations in employment, and the sacrifice of a share of the gains to be obtained from rapid changes in price. Prices of goods (wholesale, at any rate) will usually be reduced when demand falls off, and raised when demand increases; the worker will be affected usually only when the change is so great that men are turned off or overtime is necessary.

The Trade Union is an organization by which the

wage-earner seeks to attain these two objects. It removes the weakness as a bargainer of the seller of labour by substituting combination for isolation and collective bargaining for individual bargaining; its funds form a reserve on which the members can draw when the reserve price of their labour is not forthcoming, and it gives them, in the Trade Union official, an agent for the sale of their labour who can supply the special knowledge of market conditions and experience in bargaining which they lack. The second object it attains by formulating and defending the standard rate. It requires the employer to insist on prices that enable him to pay the standard rate, and what one employer can pay it insists that all shall pay. If a falling-off in trade is prolonged, the union will consent to a reduction in the standard rate; but temporary fluctuations are met either by contracting and expanding profits or by short time (or unemployment) and overtime.

But not one wage-earner in five is in an effective Trade Union. The great majority of wage-earners have neither the reserve funds nor the organization which enable Trade Unionists to overcome the weaknesses of their position in bargaining and set a reserve price on their labour in the form of a standard rate. Unless, then, the mass of wage-earners had found some other way of setting a reserve price on their labour, we might expect that the great majority of wage-earners would have their bargaining weakness exploited, until their wages were meagre subsistence wages, and fluctuating and uncertain at that; an employer would be able to transmit any pressure to which he was subjected on to the worker, and to enjoy the profits of good trade without bearing a corresponding share of the losses of bad trade. The workers in some industries are in this condition. There

are no limits on competition for employment among them, and they can resist no reduction forced on them by their employers, so long as they can still subsist—with or without the aid of charity and the Poor Law—on the earnings they can make. These are the “sweated” industries, the chief of which have been dealt with since 1909 under the Trade Boards Act. But the majority of wage-earners are not in the condition we describe as “sweated.” The reason is that most wage-earners, although unorganized, have found a way of setting limits to competition and placing a reserve price on their labour; they have found a way of overcoming the chief weaknesses of their position. And the way is the same as the way of the Trade Unionist—namely, combination; but the combination is tacit and instinctive, not conscious and organized.

The ultimate safeguard of the economic position of the wage-earners is the understanding, that exists in every industry not “sweated,” to stand out for a wage which will support a certain standard of life. If it were not for this understanding, the unscrupulous employer at any time, and the hard-pressed employer in bad times, would cut at the standard rate; other employers would follow suit, and the workers, weak in their isolation and lack of reserve, would be forced lower and lower. It is the object of a system of free contract to stimulate competition, and unrestricted competition among wage-earners when there is no scarcity of labour can lead only to the condition of the “sweated” trades.

This standard of life is a conception which, though difficult to formulate, is not indefinite. Its exact content varies from industry to industry, from grade to grade, and from district to district. But any worker in an established industry has a pretty clear idea what

the standard of his grade in that industry and district is; and to that standard he conceives that he has a *right*. It is not a "subsistence" standard—it varies from industry to industry; and in any industry the single man expects the same as the married man, and the married man expects no more than the single man. It is not fixed; indeed, it changes within not very lengthy periods, and tends to rise with the spread of education and the broadening of consumption; but at any given moment it is conceived as fixed. It gives an ideal colour to a material struggle, because it converts a demand for twenty-five shillings a week into a demand for a right and the assertion of a status in society. Its importance in the economic organization is that it gives the "sticking point" below which wages will not normally be depressed. It is the basis of the combination which fixes the rate of wages—not absolutely, but relatively to the constant movement of values that free contract results in elsewhere. The unorganized worker sticks out for what he conceives to be his standard, because he can rely on the other people, who are able to do his work, doing the same; thus he enjoys some of the advantages of combination, and can maintain the "reserve price" which Dr. Marshall regards as necessary, if the "normal force of supply and demand" is to act. He defends himself against the exploitation of his weakness as a bargainer, and secures a respite from the worry of thinking out what he shall demand for his services every time he becomes a party to the free contract of employment. The Trade Union organizes and gives definition to the demand for the standard of life, and enormously strengthens the wage-earner's power to secure it; moreover, by forcing up its own standard rates as the growth of wealth allows,

organized labour raises the standard of life generally, and induces the unorganized worker to screw his "sticking point" up a little; but it exists apart from Trade Unionism and is prior to it. The demand for it is the instinctive reaction of the average man against a system of free contract, which leaves him free to get rich in his own way, but guarantees him no secure status if his interests and ambitions do not happen to lie in the direction of amassing wealth, or if inequality of opportunity prevents him from using his "freedom."

The maintenance by tacit or overt combination of their standard of life by any class of wage-earners is not inconsistent with their wages equalling the net product of their labour. In the first place, wages and the value of labour are distinct, and the productivity of labour does not depend altogether on the worker. If, then, the workers stick out for a certain wage, the employer may be able, either by altering his organization or by getting more labour out of each worker, or by both, to pay the wage insisted on without giving any more per unit of labour and without increasing the cost of production. Employer and wage-earner are often at cross-purposes in bargaining about wages. What concerns the employer is the price of labour, which may be low when wages are high, and high when wages are low. What interests the worker is the amount of his income; he will try to get as good a price as possible for his labour, but if he can secure the income, which his conception of his status demands, by no other means, he can be made to give more labour in the same time—as in the frequent case of piece-workers earning the same income after a reduction in hours as before. But even if this adjustment of productivity to wages were not possible, wage-earners could still by combina-

tion maintain a comparative fixity in their wages, just as the sellers of any commodity can by combination keep the price of it steady. They would have to adjust the supply of labour to the demand, and either work short time, support unemployed members, or restrict entrance to the trade, when the demand for their labour fell off. Except, however, in the case of a decaying industry, which can be met by the diversion into other occupations of recruits who would otherwise have taken the place of superannuated workers, the workers in any industry can usually maintain their standard rate, in spite of a temporary falling-off in the demand for their labour, in the safe assurance that the steady rise in demand *as a whole*, due to the steady growth of wealth as a whole, will presently bring prices up to a level that will enable employers to pay the standard rate while employing all the workers. It is this steady growth of wealth, and therefore of demand, that enables the workers to insist on their standard of life being maintained. Temporary fluctuations in an industry may make it temporarily difficult for the employer to charge on to prices the full amount of the wage needed to maintain the standard; but the losses of *temporary* fluctuations, like the gains due to temporary fluctuations, should be charged to profits, the social justification of which is that they are the payment for taking risks; and in the long-run the inevitable rise in demand will bring prices up to a level that will cover the needed wage.* The tacit agreement to stick out for a wage that will

* For examples of the results of maintaining the standard rate in crafts threatened by machinery, see Webb, *Industrial Democracy*, pp. 417-420 (cord wainers) and pp. 420-424 (hand-paper-makers). For the results of the opposite policy of sacrificing the standard rate, see Tawney, *Minimum Rates in the Chain-making Industry*, ch. ii.

support their standard of life serves the wage-earner the same purpose as a trench-line serves a modern army; it strengthens resistance against encroachment, and consolidates and makes secure any advance. It can be overwhelmed—the obstacles to maintaining it we shall have to consider in a moment; but, on the whole, it has been the chief instrument in freeing the wage-earner from the loss of status to which unrestricted competition would lead, and in securing for him a share in the increase of wealth.

This brief survey of the reaction of the workers to the stimulus of free enterprise has been made in order to discover what the worker wants. What he wants, primarily, though not of course exclusively, is his standard of life with security. He wants an assured economic status, and not all the golden possibilities of treading in Mr. Carnegie's footsteps will compensate him for insecurity of status. Progress, a great historian has said, is a movement from status to contract. The worker is apparently of a different opinion; he prefers a compromise, and has sought by voluntary organizations and instinctive combination to maintain an element of status in his economic condition. And he has met with some success; wages are steadier than prices or profits; the great majority of workers are freed either by collective bargaining or by the establishment of customary rates from the worry of perpetual thought about their livelihood. But their status is never quite secure; it lacks the support that the State could give it without departing from the principle of free enterprise. The experience of Trade Unions points to the possibility of combining the social advantages both of status and of contract.

II.—THE INFLUENCE OF WAR CONDITIONS.

Unrestricted competition is as rare in the economic field as complete monopoly. Although trusts and pools are still the exception in British industry, understandings, trade customs, and the recognition of a distinction between "fair" prices or "fair" competition and "unfair" prices or competition, effectively restrict competition between producers. These understandings have not crystallized into open syndicates and alliances so frequently as in Germany, partly because British manufacturers are more individualistic than those of Germany, but partly also because the state of English law makes an organization of the type of the German Kartel impossible in England. It is a Common Law rule in England that agreements in restraint of trade are contrary to public policy, and the courts will not enforce them; in Germany the rule is different, and the courts will enforce agreements between independent producers to sell through a single agency or observe a common price-list. But the English rule has been superseded by statute in the case of combinations of wage-earners; it has not prevented the formation of shipping rings and railway conferences; and the complete amalgamations to which it has driven firms prevent it from fulfilling its object in an increasing number of manufacturing industries. And it is doubtful whether its object is really in accordance with public policy.

That object is to insure competition among producers. The theory of the present arrangement is that a price fair both to producer and consumer can be reached only if there is competition on both sides; the assumption underlying this theory is that the pressure of competi-

tion will be equal on each side. Unrestricted competition, however, does not exert an equal pressure on both sides ; it presses much more heavily on the producer than on the consumer. For the producer is committed to and dependent on the sale of some particular thing, while the consumer can usually dispense with any particular thing or find a substitute. Absolutely unrestricted competition would lead not to fair prices, but to the exploitation of producers by consumers. Producers can redress the inequality in bargaining force and protect themselves against exploitation in only one way—namely, by combination ; and they have taken that way : open combination where the technical or legal conditions of the trade allowed it, tacit combination where no other was possible. The combination of wage-earners to maintain a certain standard of life, then, is not unique ; it is the application of the general method of protection to the weakest class of producers. And whatever be thought of the social advantages or disadvantages of combination among other classes of producers, there can be no doubt of the advantage of it in the case of wage-earners ; the condition of those “sweated ” wage-earners who are incapable of combination is a standing warning.

There has been some recognition of the importance of maintaining the wage-earner's standard of life. Trade Unions have been given a legal status. The State requires the payment of the standard rate of the industry and the district on Government contracts ; unemployment benefit under the Insurance Act is not forfeited by refusal to accept work at less than the standard rate. But the wage-earner's claim to his standard of life with security has never received the support which the State, and the State alone, can give it. If the State is ever to give that support, now is the time. The War has

dislocated pre-existing economic relations, and exposed existing standards to all the dangers that can threaten them; thus the War has intensified the need. At the same time, the War is an opportunity; it has made some reconstruction inevitable, and the giving of security to the wage-earner's economic position can be made the basis and first object of reconstruction. It is necessary, therefore, to consider what are the chief dangers which threatened the standard of life before the War, and what are the ways in which the War has accentuated those dangers.

The dangers that normally threaten the standard of life of any class of wage-earners fall roughly under four heads. The first is individual bargaining; the employer who can deal with his employees individually can play off one against another, can bully, bluff, or bribe individuals to depart from the standard rate, and thus can undermine and destroy the standard. The second is unemployment, which endangers the standard in two ways; by making individuals desperate it saps their loyalty to their standard rate; by reducing the consumption of those who hold out, it accustoms them to a lower standard of life, to which their "sticking-point" will in future tend to fall. The third danger is a general rise in prices or of the cost of living. Such a rise confuses the wage-earner; he *seems* to be getting his rightful wage, because his money wage remains unchanged or is even raised; actually he is getting a lower *real* wage. Such confusion inevitably weakens the instinctive combination on which the maintenance of the standard of life depends. The fourth danger arises from changes in methods of production. Any change dislocates the existing relation between operative and work, and involves a new bargain, in which the weaker bargainer

will probably lose ground; most changes afford some opportunity of substituting low-wage for high-wage labour. Further, changes in the organization of production, by altering the relation of a class of workers to a kind of work, weaken the instinctive combination which makes the class something more than a mere aggregation of individuals.

The Trade Union does something to meet most of these dangers. It substitutes collective for individual bargaining and puts a reserve price on the labour of each class of wage-earner. Unemployment it meets either by paying out-of-work benefit or by organized short time. Changes in the cost of living it deals with, not quite adequately, but more adequately than any other existing device or institution, by constantly asking through its joint committees for the adjustment of wages when prices rise. The Trade Union can check attempts on the part of employers to nibble at the standard rate only if it has secured "recognition"; employers and operatives both realize this, and the bitterest trade disputes are over "recognition." Trade Unions have had less success in guarding against the dangers arising from changes in the organization of production; and the problem of reconciling the constant change, which improvements in production involve, with the claims of the worker to a stable economic position, is intrinsically much more difficult than the problem of dealing with the other three dangers. The attitude of the workers varies from industry to industry, depending as it must do on the varying technical conditions; and it is further complicated by the belief, still lingering in some quarters, that there is only a limited amount of work to go round, and that therefore it is against the interest of the workers as a class to allow work-saving

methods to be introduced.* Making allowance for these differences, we find unions adopt a fairly uniform attitude towards changes in methods of production; their immediate aim is a "say" in determining the conditions under which changes shall be introduced, their ultimate aim is to make it a condition of the introduction of new methods that the economic position of the present workers be preserved. Unions offer no opposition to technical improvements in the cotton industry, improvements being made a subject of joint discussion and collective bargaining, and price-lists adapted to them. As an example of a more revolutionary change, the introduction of the linotype machine may be taken; the compositors did not oppose its introduction, but secured that the displaced compositors should have the option of working the new machine at a rather higher rate of pay. In many even well-organized industries, however, such a share of control as the cotton-operatives have secured is still only an aspiration.

The attitude of the wage-earner to technical changes is very similar to his attitude to piece-rates. He has no objection to piece-rates, when they do not change too frequently. But most industries change so much that piece-rates have to be constantly changed, and the worker fears with justice that these changes will be used to speed him up without increasing his wages. Where, however, the worker has behind him a well-organized union to make the settlement of rates a matter

* Dr. Marshall has called this belief the "lump of labour fallacy." It is interesting to notice how widespread is the similar belief among business men and politicians that there is only a limited amount of trade, so that British trade can only be increased by "capturing" German or some other trade. This "lump of trade fallacy," as it might be called, is spreading, while the "lump of labour fallacy" is losing ground.

of collective bargaining and to secure an increase in wages at least proportionate to the increased intensity of work which piece-rates induce, then his objection disappears; and he frequently insists on piece-rates. Similarly with changes in methods of production; if his union is strong enough to secure his economic position in any change, and also a share in the increased product due to it, then he welcomes it. If, on the other hand, he has to fear that the fresh bargain necessitated by the change will be to his disadvantage, he becomes a passive, and sometimes an active, resister. The worker's claim is a reasonable one. The workers established in an industry have a vested interest entitled to just as much respect as property; they have the same right in equity to compensation, if their legitimate expectations are disappointed, as the officials of a district council absorbed by a county borough. And the condition which they seek to impose, that the status of the workers affected by any change shall be preserved if possible, does not necessarily check improvement. There are always alternative ways of introducing any improvement; if it is an improvement, it will bear at least the same wage per worker as the system it displaces bore; and the most revolutionary change can be introduced without disturbing the status of anyone, if it be spread over a generation. Most changes, however, are slight, most technical revolutions are gradual; and the introduction of them is as capable of discussion by a joint committee as are changes in wages. In practice wages and conditions can seldom be separated, and the wage-earner is forced to claim a share in control of conditions merely to safeguard his standard rate, and quite apart from any desire for control for its own sake.

The effect of the War has been to aggravate these

dangers to the worker's standard of life. The movement of prices and the changes in earnings have severed the connection in many industries between a well-understood standard of life and a certain kind of work. New wage bargains will have to be struck. While organized workers will in most cases be able to establish new standards above the old level or re-establish the old standards, the unorganized workers, whose pre-War standard was maintained only by instinctive combination, can hardly be expected to exhibit the old unanimity after all the intervening changes, and are in danger of a serious reduction of status. In the munitions industries in particular a mass of knotty wage problems is accumulating to cause trouble when peace returns. The workers are making high earnings for two reasons: first, they are working on Government orders, and the Government must have the goods at any price; secondly, they are working with an intensity and for hours that they did not and will not work in peace. After the War, when the Government demand is replaced by a peace demand, wages will have to be revised, and there will be a difficulty in reaching agreement because neither party will be willing to return to the *status quo*; the employers will want to return to pre-War wage-rates, while maintaining the War standards of speed and application; while the workers will want the War earnings to continue in return for work at pre-War speed.

The chief difficulty, however, will lie in dealing with new methods of production introduced during the War. Trade Unions have given their consent to the temporary introduction of new methods without imposing any conditions. As a result, the conditions upon entry to a trade, the relation of worker to machine and of one class of worker to another, by which the unions sought

to secure the status of their members in case of change, have been ignored. Employers have been not only permitted but forced to alter their systems of production, and to make use of the labour of women and unskilled workers for work done formerly by artisans. During the War this new labour is not being allowed to compete with the skilled man by offering labour at a lower price; but after the War, when the Government support which now holds wages up is withdrawn, the tendency will be for the wages of these workers to sink to the lower standard of life which is all they normally stick out for. Women's labour is cheap labour for the reason, among others, that women will not as a rule stick out for a family wage; unless the women organize themselves and stick out for more, or the men organize the women, the pay for work which the women are doing will tend to sink to a rate which will support a single woman, and that whether the women are less efficient or more efficient than the men they displace.

The Government has given a pledge to restore pre-War conditions. The pledge was doubtless given in good faith, but offers no simple solution of the problems created by changed conditions. Its literal fulfilment would not merely involve the sacrifice of all the productive inventions mothered by the necessities of the War; it would commit labour to an inevitable, bitter, and unavailing struggle with its employers. The struggle would be inevitable, because nothing the Government can do will expunge from the memories of the employers the improved methods which the War has allowed them to test; it would be bitter, because the possibilities of profit offered by cheaper production would be at stake on the one hand, and the status of the workers on the other; it would be unavailing, because

the workers would be fighting against cheaper production, in which the public and the employers have a common interest. The pledge is not, however, unimportant; it is of immense importance, since by implication it recognizes in the most official manner possible the right of the wage-earner to a "say" in the introduction of new methods, and the position of the Trade Union as the guardian of the status of the wage-earner. And while it does nothing by itself to solve the immediate problem, it does pledge the Government to action of some sort.

To sum up, the effect of the War has been to make necessary new wage-bargains over the greater part of the field of industry and to shake the basis of the instinctive combination by which wage-earners maintained their wages before the War. Bargaining is the weakest point in the wage-earner's equipment; he will be assailed at that point as he has never been since the Industrial Revolution dislocated relations in the textile and metal industries a century ago. The remedy for that weakness was found in combination, but the strength of combination depended on the association of a class of workers with a well-understood standard of life and a certain class of work. Standards of life have been changed, and work has been reorganized, regraded, and reclassified. There has been no time for new standards to establish themselves, or new craft feeling to grow up. The danger therefore is, if measures cannot be devised to prevent it, that the new wage bargains will be reached only after a long series of bitter trade disputes, which will shake credit and hamper the restoration of industry to a peace basis, and that whole grades and classes of workers will in the course of the struggle lose the status which they had so painfully built up before the War.

III.—THE RESTORATION OF INDUSTRY TO A PEACE BASIS.

(a) *Collective Bargaining*.—The Government has given the workers in the munitions industries a pledge. Broadly interpreted, the pledge is an undertaking to restore the workers to a position not inferior to their position before the War, and to establish safeguards in case of change not less effective than those which have been given up. Even if no pledge had been given, no modern Government could stand idly by while a revolution—even an industrial revolution—was taking place; and the present Government has as a matter of fact announced its intention to prepare and carry through some scheme of reconstruction. The attitude of the Government to the question of wages depends on its attitude to industry generally, and it is not likely that the Government will make any considerable departure from the principle of free enterprise. But without departing from that principle the Government can do much to give the wage-earner the secure status that he wants.

It can do this by the method which has been applied with success for other objects—namely, by leaving the wage relation to private contract, but imposing conditions on the contract. It has been said that the contract of employment in the nineteenth century changed from an “unconditioned” to a “conditioned” contract; it remained a matter of private arrangement, but the private arrangement had to comply with certain conditions as to sanitation, fencing of machinery, age and sex of workers, etc., imposed by Factory and other Acts. That the same method can be applied to the new object is indicated by the success of Trade Unions in

imposing conditions intended to secure the status of the worker. The policy of the unions has been to make both the fixing of wages and the introduction of new methods a matter of collective bargaining; the least the Government can do, then, if it wishes to fulfil in the spirit its pledge and to make their economic position tolerable to the workers, is to use the power of the State to extend collective bargaining about wages and conditions over the whole field of industry.

As a bare minimum two measures would be necessary to this end. The first should deal with the fixing of wages, the second with conditions. The former should make the wage determinations reached by negotiation between representative organizations of wage-earners and employers binding on all employers and wage-earners. The Labour Party embodied this policy in a Bill in 1912; the Industrial Council also has supported it, recommending that the Board of Trade should be empowered, on application from the parties to a collective agreement, to hold an inquiry, and, if satisfied that the agreement was equitable and embodied the custom of the district, to make it an implied condition in any contract of employment in the industry. The objection to making such an inquiry an essential part of the procedure is that there exist no recognized standards of equity in industrial remuneration. It would be simpler, therefore, to authorize the Board of Trade to make a collective bargain binding on the whole trade, provided that the union or unions that made the agreement included a sufficient proportion of the total number of employees in the industry to give them a representative character. Such an arrangement would give the stronger unions the security of legal enactment to their standard rate, and so set them free for the more

important task of devising methods of exercising some control over the other conditions of their work. Its chief benefit, however, would be in those industries which are neither well organized nor sweated, which have a fairly definite status established by an instinctive observance of a common standard of life, without having the inclusive Trade Union organization needed to guarantee that status. The prospect of being able to secure the force of a statute for their standard rate by organizing themselves would be the strongest possible inducement to the workers in these industries to organize. To insure that all wages were fixed by collective bargains it would be necessary also to extend the Trade Boards Act to all industries in which the standard of life is so low that Trade Union organization is impossible. The case of agriculture, however, would be met best, not by an extension of the Trade Boards Act, but by a special Act on the lines of the Miners' Minimum Wage Act, making the determination of the minimum wage the work of district boards.

The actual determination of wages would be left, as at present, to bargaining and the play of supply and demand. The proposal is not that the State should fix wages, but that it should insist on all the employers in an industry paying the same rate for the same work. The obstacle to the State fixing of wages, or compulsory arbitration (which comes to the same thing) was indicated in the last paragraph; there is no scale of social values in accordance with which the State could fix the remuneration of different kinds of labour. "It has to be clearly understood," says Professor Ashley, "that the ultimate arbiter in the industrial world, as in the world of international politics, must be force: the determining decisions can commonly be arrived at only

by an avowed or tacit trial of strength.”* The use of the strike, therefore, in industrial disputes, like the resort to arms in international disputes, can be surrendered only when principles of right have been recognized, in accordance with which judges or arbitrators can give their decisions; to insist on the settlement of disputes by judicial means while no such principles exist would be to stereotype the *status quo*, and would inevitably fail, because the *status quo* is unjust. The State, therefore, must leave the settlement of wages to bargaining between the buyers and sellers of labour, only insisting that the conditions of the bargaining shall be as fair and as public as possible; and this end can be attained best by insisting on collective bargaining. Experience shows that the better organized an industry is, the more likely it is that the “trial of strength” which settles wages will be “tacit,” not “avowed”; in the years of greatest labour unrest four-fifths of the changes in wages in organized trades are made without strike or lock-out. The adjustment of wages to changes in the cost of living especially can be made peaceably only by organized collective bargaining.

The second measure is needed to find a fair equivalent for the safeguards given up for the period of the War by the unions. What is a fair equivalent, it is impossible for the Government, or for anyone outside the industries affected, to say. Only the men and women in an industry know where lie the dangers of over-speeding, of systems of remuneration leading to individual bargaining, of opportunities of petty tyranny on the part of overlookers and foremen, of neglect of the claims of the workers established in the industry when new methods are introduced, which the

* *Adjustment of Wages*, p. 136.

regulations and customary rules that have been sacrificed were designed to obviate. The most practical solution, therefore, would be for the Government to remit to joint committees of employers and operatives the whole business of restoring conditions to a peace basis and finding substitutes for the regulations that have been sacrificed, Parliament and the Government Departments confining themselves to enforcing the decisions reached. Where joint committees exist they should be entrusted with the work; where none exist, joint committees in each district of each industry should be set up. The committees should be representative. Committees consisting of a few employers and Government officials are not satisfactory, because neither employers nor Government official can speak for the workers in whose interest the new regulations are to be devised; had the Government or its advisers known enough about the conditions of work to be entrusted with this restoration, the Government would hardly have given such a wild pledge as the pledge to restore pre-War conditions. The only possible principle is to remit the matter to the industry concerned, which understands it. Even the provision of a chairman by the Government is to be deprecated; it is so rare that chairmen are really impartial. The Government has given a pledge which the force of circumstances prevents it from carrying out in the letter; if it does not satisfy the workers that it is offering a fair equivalent, the faith of the workers in Governments and their willingness to accede to Government demands in future crises will be permanently shaken.

This suggestion involves no revolutionary innovation. It is the custom of the Home Office, before issuing new regulations for the safeguarding of health in dangerous

trades, to consult representatives of employers and operatives; no other procedure would secure the end aimed at—namely, regulations at once practical and adapted to the need. At a time when great changes of methods are being introduced and the Government is pledged to enforce some regulation, the only practical procedure is to remit the regulation of conditions generally to joint committees of employers and operatives. At the same time, if there would be nothing revolutionary in this procedure, it would represent a considerable advance from the point of view of the wage-earner. It would constitute a further and more effective recognition of his right, already conceded in principle by the giving of the Government pledge, to consultation through his representatives before any new methods are introduced. And, although the Government gave the force of law only to those regulations which were called for by changes due to the War, the machinery by which those regulations were drawn up would continue, and so long as it continued would insure the consultation of the workers before any change was introduced. Regulations established after the War would not stand for ever; they would need revising to meet new conditions, and they could be varied only by the same machinery as was used to establish them.

Thus, wage-earners in the industries affected by the Government's pledge would gain something equivalent to what they have lost. They have sacrificed the safeguards of their economic status which existed before the War: they would secure for the future the opportunity of asserting their claim that the status of the workers in an industry should be respected, if at all possible, in the introduction of any change. More than that they are not likely to secure, so long as economic

relations are determined by private contracts. In the matter of conditions, as of wages, force makes the final decision; but a joint committee, charged with the work of regulating the introduction of new methods, would be the best strategic position from which to exercise such force as the workers possess.

(b) *Unemployment*.—By insisting on collective bargaining, making the terms of a bargain binding on the whole industry, and extending collective bargaining to conditions as well as wages, the State could, without adding very much to its own functions or to the number of its officials, introduce something like the rule of law into economic relations, and assist the majority of its citizens to secure an economic position which they desire. The economic status of most wage-earners would, however, still be subject to the disintegrating influence of unemployment, and that is an influence which collective bargaining is not likely to remove. Trade Unions have done something, but they are only in rare instances strong enough to make regularity of employment a condition of the employment contract; and even if the unions could deal with the problem, the old difficulty remains that the majority of workers are in no union.

Trade Unions can do little towards dealing with the problem, because unemployment is a defect of organization and the unions have nothing to do with the organization of production. For the same reason the State cannot solve the problem. It cannot provide employment itself for the workers in private industry without duplicating the private organization of industry, and running the State establishments with intermittent and relatively inefficient labour. It may do something to even demand and so mitigate trade fluctuations by

reserving State contracts for seasons and periods when private demand falls off, provided that it can accurately foresee such periods; the innumerable schemes of public work which were devised to meet the wide-spread unemployment which the War was going to cause, might be taken out of their pigeon-holes. But the organization of production on a basis of regular instead of irregular employment, the reduction of irregularly employed reserves to a minimum, and the charging of the maintenance of such reserves on the cost of production, can be done only by the people who organize production—namely, the employers. Where they have to do it, they are able to. In the occupation most subject to seasonal influences—namely, agriculture—employment is most regular. Circumstances make it impossible for the farmer to rely on a reserve of irregularly employed workers; he contrives, therefore, to give his essential workers regularity of employment. Wherever an industrial firm is in the same position as the farmer, as are isolated firms in country towns, it contrives similarly to keep its staff together. Essential workers are usually kept on in the most fluctuating industries, however great the depression may be—just as the office and commercial staffs are kept on. Rent and debenture interest are met irrespective of the state of trade; only wages are expected to share with profits the burden of fluctuations.

At present trade fluctuations are intensified by the efforts of employers, regardless of the future or the interests of their workers, to extend production during a boom and to cut down expenses by any means during a depression. Industries, like the worsted industry, that *could* work to stock, work more and more to order, retailer throwing back on to merchant the burden of bearing fluctuations in demand, merchant throwing it

back on to manufacturer, and manufacturer on to the operatives. In other industries, such as the heavier branches of engineering, periods of slack trade could be utilized to repair and improve plant against the return of good trade; but that course is prevented by the desire to maintain dividends in slack times as in good times, and by the consequent cutting down of expenses and the dismissal of all dispensable hands.

There are firms, however, that aim at giving their workers regular employment; these serve to show that production can be organized on a basis of more regular employment. Similarly industries vary, although their conditions are comparable. Regularity of employment—not for all workers, but for a much larger proportion than enjoy it at present—could be secured by insisting on *all* firms giving the same regularity as the good firms in each industry are *at present* giving, and all industries the same regularity as the most regular industries with comparable conditions. What is certain, however, is that neither individual employer nor industry will make the attempt to organize production on a basis of regular employment without being forced to make it. No one would suggest that a modern Government should adopt the heroic method of Wolsey and forbid employers to discharge workers when trade falls off. But the State could emphasize the responsibility of the organizers of production for regulating employment, without making it an absolute rule that employers must give regular employment. It could do so by putting a premium on regular employment and penalizing irregular employment. Thus it would remit the problem of unemployment in an industry to the industry, just as it would remit the problem of fixing wages and conditions to the industry by insisting on collective bargaining.

The State has gone further in recognizing the evil of unemployment and supporting the claim of the worker to a regular income than it has in recognizing his claim to a standard wage. The chief steps have been made since Mr. Beveridge made his analysis of the problem in his book on Unemployment (an analysis confirmed by the Majority and Minority of the Poor Law Commission), and have followed the lines of that analysis. But the Government has acted rather like a doctor who should diagnose the disease of a patient correctly, and decide, also correctly, that a certain medicine was needed, and should then place the medicine on the patient's table and tell him he could take it or leave it as he pleased. The evil of casual employment was diagnosed as one-half of the problem, and the dovetailing of jobs by a Labour Exchange as the appropriate treatment. But the engagement of casual labour through the Labour Exchanges set up was not made compulsory. Seasonal and cyclical fluctuations of trade were diagnosed as the other important element in the disease, and an Unemployment Insurance Act has been passed to deal with these fluctuations. But the principle of putting a premium on regular employment is not applied with much conviction. The penalty on irregular employment is not heavy enough to act as a deterrent against unnecessary irregularity. The desire to be "impartial" and to tax equally the worker who suffers from unemployment and the employer whose defective organizing work is a main factor in causing it, makes it difficult to make the tax heavy enough to be effective. And because the contributions are so low, the benefits payable are too low to safeguard the standard of life.

To make the Insurance Act an effective machine for

dealing with the evil of unemployment a more vigorous application of the principle of deterrence is needed. While the employee's and the State's contributions remain the same, the increased funds needed to raise the rate of benefit in accordance with the rise in the cost of living should be obtained by increasing the employer's contribution. Moreover, each industry should have a separate unemployment fund. If the scheme is to offer a premium on regular employment, it must impose a tax which will not only compel the individual employer to seek means of regularizing work, but will induce all the firms in each industry to co-operate to that end. As things are, if one industry improves its organization and lessens the charge of the industry on the general unemployment fund, it does not get the whole benefit. In the Act as it is at present the prospect is held out to employers that the rates of contribution may be revised not more frequently than once in seven years ; but the raising of rates is limited to a penny per contribution, the contributions of employer and workman must remain equal, and the variation is at the discretion of the Board of Trade. Hence the premium on regularizing employment has to be shared by the employer with the workman, although the latter already has the assurance of recovering all his contributions (less benefits drawn) with interest at the age of sixty ; on the other hand, the employers who do not reduce irregularity of employment cannot be penalized either adequately or without penalizing their unfortunate employees at the same time ; and the interest of the *industry* as a whole in the reduction of irregularity is not made certain and obvious.

The tax, then, on each industry should be applied to relieving unemployment in that industry, not unemploy-

ment generally. There should be a common rate of benefit—at least ten shillings a week—and a varying rate of contribution, the employers in each industry being charged whatever may be necessary to pay that rate of benefit in their industry. Such a tax on profits, reducible or recoverable by the employers in any industry so far as work in that industry is regularized, would be the most effective incentive to joint action between the individual firms, and might be expected to have two desirable results: first, methods would be devised of organizing what reserve of irregularly employed labour the industry really needed, and keeping its numbers down to a minimum; and, second, something would be probably done to check by agreement the over-production during a boom, which inevitably results from unco-ordinated selling, and is the chief cause of depression following boom. At the same time, to encourage further efforts on the part of the individual employer, the provision by which he can recover one-third of his contributions on account of any employee to whom he has given regular employment for the whole year should be altered, and the proportion increased.

This amendment of the Insurance Act would be merely a further extension of the principle on which the Government has already acted. The policy of the Labour Exchanges and Unemployment Insurance part of the Insurance Act is described by Mr. Beveridge as “a policy of making reality correspond with the assumptions of economic theory.” The theoretical assumption on which the social justification of profits rests is that they are payment for the work of organizing production and bearing the incidental risks. Now, production in an industry cannot be said to be “organized,” nor can its organizers be said to be bearing its risks, if it does not

give regular employment to its workers or maintain them during unemployment. To charge the chief burden of unemployment on to profits, then, is justifiable on precisely the same grounds as profits themselves are justifiable. If, on the other hand, the workers or their unions are to continue to bear the chief cost of bad organization, then they are entitled to a share in the control of the industries.

Further, the burden of unemployment has to be borne by someone; by doing nothing we do not extinguish the loss. There are only three parties on whom it can be placed: the worker, the State, and the employer. If we place it on the worker, where in the main it has rested in the past, we depress wages already inadequate, and demoralize large numbers of workers every time there is a trade depression. If the State bears it, it is put upon the taxpayer, who is not sufficiently conscious of it to insist on its cause being removed. By placing it on the employer, we are applying the pressure at the one point at which it can have a remedial effect. Our aim is not merely to find the means of relieving the unemployed; what we want is an alteration in the organization of industry that will give more regular employment. Only the organizers of industry can effect that alteration, and they must be induced to do it. So far as the nature of the industry makes regular employment impossible, the employers will be able to deal with the tax as they deal with any other tax—namely, shift it in part or wholly on to others; if they shift it on to wages, there will still be a gain to the worker, since the increased regularity of his income will more than counterbalance the slight reduction; more probably they would shift it on to the consumer by charging it on the cost of production.

IV.—STATE REGULATION OF PRIVATE ENTERPRISE.

Whether our ultimate aim is the conservation or the abolition of the wage system, we must recognize that the insecurity of status of so many wage-earners is an evil. It prevents them from giving much attention to schemes either of reform or of revolution, and its removal is a necessary first step to any considerable social advance. The policy of allowing wages to remain a matter of private contract, but imposing conditions on the contract, is not merely the line of least resistance. Bargaining, whether between groups or individuals, is the only way of settling wages (or any other problem of distribution) so long as we lack agreed standards by which we can value contributions to the welfare of society. Market values are very far from giving us such standards, since they are the outcome of the play of supply and demand in a market in which the sovereign which the millionaire offers for the satisfaction of his whim has exactly the same influence as the sovereign on which the labourer keeps his family for a week. And we have no measure except market value of the productivity of different kinds of labour; to say that each tends to get the value of his contribution to the joint product of industry means no more than that the contribution of each tends to be valued at what he gets. Unless, then, we are prepared to aim at equal payment for all kinds of work, we must leave the amount of wages to be settled by private contract, by bargaining, which means ultimately by the relation of the supply of each kind of labour to other kinds and to the other agents of production; and the most direct way of improving the position of the wage-earners will be by imposing conditions on

the contract that will give it stability and make wages the first charge on the product of industry.

Further, we can discover the conditions that will give us that result only by remitting the problem in each industry to the people in that industry. The intervention of the State is necessary, in order to *enforce* those conditions when discovered. The State is the piece of social machinery by which society makes general a rule of which the majority of its members approve. It does not, however, follow that the organs of State, Parliament and the permanent departments, are necessarily the bodies best fitted for devising or formulating such general rules. Where the rule will affect only a section of the community, and is concerned with technical or complicated interests which no one outside that section of the community is likely to understand, the State will act best if it remits to that section the business of devising a rule, and confines itself to enforcing the rule devised. Of all social relations the relation of employer and employee is perhaps the one most influenced by technical considerations, which the outsider, whether Member of Parliament or Government official, will not fully appreciate. If society wishes, therefore, to give the employee a secure status without an economic revolution, it is driven to the policy indicated—namely, remitting the question in each industry to the industry, and enforcing the conclusions reached. As a minimum the State must require each industry to fix and observe standard rates, to give the worker a “say” in the introduction of new methods, and to organize its production on a basis of regular rather than irregular or casual employment.

Such a policy is based on social rather than economic grounds; in other words, on the ground that it would

increase welfare directly, whether it increased or decreased material wealth. It would increase welfare by satisfying what with most people is an elementary desire—the desire for economic security. That desire is not due to mere cowardice or sloth; it is an assertion of the proper place of material wealth in life—a means, not the end. The attitude of other classes is similar to that of the wage-earner. The professional man wants the income of his class; once that is secured he is as a rule more interested in his profession than his fees. The organization of the higher branches of the Government service is based on the same principle, that a man will do his best work if given a relatively small but secure income rather than fees based on amount of work done. Even the great captains of industry, who build up fortunes by taking risks which they enjoy, usually establish their children in a position of economic security by buying land or turning their businesses into joint-stock companies. *Laissez-faire*, the policy of *unconditioned* freedom of enterprise, tends to place wealth in the hands of people who will make its acquisition the chief end of life. The ordinary man does not want to be always thinking about wealth-getting, and therefore he has imposed conditions on freedom of enterprise; he wants his “living” secure, so that he can attend to his real interest in life, whether that be politics or poultry, literature or the fortunes of a professional football team. What wage-earner and professional man alike are seeking is freedom, a condition of things that will enable them to shape their lives in accordance with their own wills. There is no freedom so long as a man’s first energies must be given, not to his work, but to haggling about the price of his work—so long, that is, as livelihood is insecure. The possession of property gives the

minority of the nation the security they want; industry must be organized to give the mass something similar.

The objections that will be raised are mainly economic, but one social objection suggests itself. This is the objection that status deadens, that security kills enterprise. It is claimed as a virtue of the system which leaves economic relations to be settled by unconditioned private contract that it allows no one to rest on his oars, and provides a constant stimulus to initiative, enterprise, and industry; the fear of unemployment, of a loss of status, are needed to overcome the innate laziness of the ordinary men. Few of the people who uphold this view are prepared to pursue it to its logical conclusion, and save their own children from the dangers of security by leaving all their own property to the Crown for the redemption of the National Debt. But in any case it does not apply in the present case. The status that deadens is that of the caste system that prevents a man from rising, not that of the social insurance that prevents him from falling through no fault of his own. Security of the latter kind is an essential condition of any free activity with most people, and it is that which the State could and should give.

Further, if the State steps in only to enforce rules reached by collective bargaining, the condition of any class of workers would still depend ultimately on their own efforts. The great objection to a uniform State-enforced minimum wage is that there are classes of workers so dispirited as a result of the economic struggle that they need some stimulus to make them fight for themselves even more than they need a minimum wage; if the State confines itself to enforcing what they can get by collective bargaining, they will have an inducement to combine and to fight. Again, the enforcement

of a common rule in industry does not discourage the selection and discarding from an industry of the workers who for personal reasons are inefficient; it rather encourages it. Strong Trade Union organization does not compel an employer to employ inefficient men; it only compels him to pay the standard rate and observe other conditions if he employs a man at all. The result is that the employer exercises rather more care than less in the selection of men and the allocation of work. Even if the Government by some means gave the whole wage-earning population absolute security of tenure in their present positions, it would not necessarily stop the selective action of industrial competition and check the increase of wealth; for competition would still operate among the organizers of production, on whose ability and enterprise the increase of wealth chiefly depends. It will be time to talk of the danger of undermining the enterprise and initiative of the wage-earner when industry has been reorganized in a way that allows him some scope for initiative and enterprise; at present he is usually only a cog in a machine over which he has no control.

The economic objections are more important. Any imposition of rules and conditions on industry is open to the objection that, by hampering the freedom of the organizer to choose the methods that seem to him best, they may check the increase of production. This objection has more force than usual when brought against proposals which aim at giving an economic class a secure status. Anything like status seems inconsistent with the very principle of the present economic organization; economic relations are deliberately left to be settled by private contract with the object of insuring that no arrangement for increasing production shall be

obstructed. The incentive to improving methods of production is the profit to be obtained from cheaper production; that profit is imperilled by restricting the liberty of the employer to make changes. Less fundamental, but of greater practical importance, is the objection that foreign competition might make it impossible for British employers to comply with additional conditions and remain in business. Industrial competition is worldwide; State regulation is confined to the territory of the State that imposes it. Foreign competition, therefore, would kill industry at home, and capital would go abroad.

These objections admit of an answer; or rather, State regulation has other effects that may counterbalance their effect in restricting the employer's freedom of action. Before we turn to these, however, there are certain considerations that should be stated, in the light of which the economic objections above lose much of their force. The first is that it is not suggested that the existing basis of distribution should be altered; labour, capital, land, and management would still compete for their joint product, and the value of the services of each would still depend on the relation of the supply of it to the demand for it. So long as the State confines itself to imposing conditions on the contract of employment and leaves the contract itself to be settled by bargaining, it is doing nothing to obstruct the operation of the "law" by which wages tend to equal the marginal net product of labour. The need for imposing conditions arises from three factors in the determination of wages which, though quite consistent with that "law," are ignored by it.

The first is, that the relation between the amount of labour given and the amount of product resulting depends less and less on the worker, and more and more

on the employer who organizes his labour; it is on the amount of product, however, that wages depend. The low wage earned by the East End clothier's machinist and the comparatively high wage earned by the factory machinist in the North, may both of them equal the "net product" of the labour given; but the labour given in the former case is much greater than in the latter, and the difference in the resulting product is the difference between inefficient and efficient organization of production. The second is, that wages and the value of labour are distinct; high wages may be earned by giving *more* labour in a given time, and low wages may mean a high value of labour. The third factor is the most important. The price which the seller of labour or of anything else will get for the thing he has to sell will not be as high as the general relation of the supply of it to the demand, for it would allow, if the seller's bargaining power is inferior to that of the buyer; if the buyer has the seller at a disadvantage in this respect and knows it, he can get the thing for "less than it is worth." Wages will equal the net product of labour only if wage-earner and employer are on a level of equality in bargaining power. Now, in the case of labour, of all things that are bought and sold, the seller is most usually at a disadvantage. He sells retail to an employer who buys wholesale; his commodity is one that will not keep, since to-day's labour must be sold to-day or not at all; he has as a rule no reserve to fall back upon, while the employer has his capital; he pits his ignorance of the market against the employer's knowledge and practised skill. This is generally recognized. "Every English and American economist of eminence," says Professor Ashley,* "takes care to point out that in the wages

* *The Adjustment of Wages*, 1903, p. 17.

bargain the isolated workman is usually at a disadvantage in comparison with the employer. Professor Marshall's way of phrasing it is that 'the normal force of supply and demand' will not act freely if the contracting parties have no 'reserve price.' " The State must impose conditions to insure that "the normal force of supply and demand" "acts freely" in the determination of wages. Neither Trade Union nor State can force employers to pay their employees more than they are worth. What they can and should do is, first, to impose a common rule on all the employers in an industry, and make *all* pay the same price and give the same conditions as the good employers do; and, secondly, require employers to conform in their organization of production with conditions dictated by the needs of a healthy social life. The *amount* of wages would be settled by the same forces as at present ("acting freely"); the State, or the conciliation committees of the different industries for the State, would determine the *form*—just as in regulating the contract of matrimony the State leaves people to choose their own partners and make their own terms, but regulates the form of the contract. For welfare, however, the form of wages is as important as the amount.

In the second place, the limitation on the freedom of the employer to choose what method of organizing production he finds best is not an absolute check on enterprise. It is only the addition of two or three more conditions to the many conditions which already he has to observe. He has lost his freedom to employ infants in factories, to employ women at night, to neglect sanitation, to work unlimited hours, to leave dangerous machinery unfenced, in some industries to employ any labour at less than a certain minimum rate; and he has

survived. The truth is that the problem of organizing production in any industry is not like a mathematical problem to which one solution only is possible; it is a practical problem to which any number of solutions is possible. It cannot even be said that *theoretically* only one solution can be the *best*; theoretically there may be any number, and in practice there are usually several solutions each as good as the others.

A third consideration is that the instinctive aims of the workers will affect economic organization, whether the State assists them to find expression and supports them or not. It is probably easier with a well-organized union to secure a reduction in the standard rate, when the state of the industry or foreign competition really requires it, than with unorganized labour. For two reasons: first, there is machinery for discussing wage-rates in the joint board; and, secondly, the strong union can be sure that a temporary reduction will be temporary. In an unorganized trade the workers must fear, with justice, that if once they yield to the employers' arguments and accept a reduction, they will never get it back. The only way to give elasticity to wages is to organize effective Trade Unions.

Similarly with conditions. The worker will oppose, secretly and openly, innovations that seem to threaten his livelihood. If the opposition is open, it can be argued with, and, if the worker's status can be secured in the change, the opposition can be removed; secret opposition cannot be argued with, and is like grit in the bearings of the industrial machine. The really serious restrictions on output are not to be found in the rules of any Trade Union; they are the tacit understandings, varying from shop to shop, to which the instinctive fear of exploitation and degradation has given rise. Fric-

tion, therefore, would be lessened, and the adaptability of industry increased, by giving the worker representative institutions through which he could voice his claims and have them considered. An industry can move forward on the path of technical improvement only so fast as it can carry its workers with it; it can carry its workers with it only if they are taken into its confidence and their remuneration and conditions made a subject of perfectly open collective negotiation.

In the fourth place, the danger of foreign competition and the allied danger of driving capital abroad are dangers that beset every proposal to improve social conditions by State action. Nevertheless, every civilized State has some industrial regulation, and is continually imposing more; and there would seem to be some advantages in the States in which this regulation is most stringent, since their industrial development and growth in wealth continues. The level of industrial regulation is not a bad test of civilization, and employers of civilized instincts prefer life in a civilized country. The attraction of new countries for capitalists is not their lack of civilization and industrial regulation, but their relatively undeveloped natural resources; and it is in the general interest that capital should be exported to develop these resources. But if capital goes abroad, not to exploit natural resources, but merely to exploit the unprotected natives of only partially civilized countries, then there is an unanswerable case for prohibiting the export of capital. Moreover, it must not be assumed that organized labour will make no allowances for foreign competition; the record of the Northumberland and Durham miners proves the contrary. What may be assumed is that labour will make no allowance for foreign competition if it is given no opportunity, through

organized collective bargaining, of discussing the matter.

Bad social conditions involve an economic loss, which is none the less real because it is borne by the poor, whose economic capacity is reduced by the bad conditions. Industrial regulation which removes the bad conditions inevitably leads to an improvement in the industrial quality of the workers who suffered from them ; to put it on the lowest ground, the worker repays care more than any other element in production. This is the first indirect effect which tends to counteract any check to the increase in wealth which restrictions on the freedom of the employer may involve.

In spite of the multitude of acts and regulations which impose conditions on the contract of employment to-day, the State has only recently begun to touch the fixing of wages and the other conditions that make the wage-earner's position insecure. The result is that the majority of wage-earners are worried by fluctuations in wages that at the best afford little margin over necessities, their spirit and physique shaken by periods of unemployment and short time, and their minds deadened by the absence of responsibility and interest in their work. Under such conditions they are not likely to do the best of which they are capable, and any industrial regulation that lessens these evils will increase their economic value. Production has been organized in complete disregard of the workers' ideals ; complaints, therefore, that they are not interested in their work and obstruct progress are beside the mark. If production is organized on the assumption that the workers must be driven, it is unreasonable to expect them to behave as if they were being led.

The second and the more important indirect effect of

industrial regulation is its effect on the employing class. While more efficient labour might contribute much to increase production, the controlling influence in production is the ability of the employers. Even the efficiency of labour depends on them, since the worker will attain his full productivity only in an organization that gives him full scope and calls out his best qualities; and the organization of production is the work of the employers. Equally the efficiency of capital depends on the organizers of production, since they determine its form and application. Science and invention can help industry only through them; by them improved methods must be devised or applied. And the task of organizing production becomes more difficult and calls for higher qualities as its scale increases.

Now, employers are not all efficient. Many owe their position to the chance of birth, having inherited their business or been introduced by a relative. Others have established themselves, but owe their position to luck or a lack of scruple. Competition is supposed to eliminate the unfit; but it works slowly, and the unfit employer is hampering production, wasting capital, and lowering the standards of his industry throughout the process of elimination. An immense increase in production would result from the levelling-up of all firms to the standard of efficiency reached by the best—the levelling-up of all industries to the standard of, say, the cotton industry. One incompetent manager can neutralize the skill and industry of a hundred operatives, one rash speculator misdirect the efforts of half the firms in an industry. Not merely incompetence, but anything below the highest current level of organizing ability and technical science in the “captains” and other commissioned officers of industry, involves waste,

which the country cannot afford after the War, even if it could before. The inequality of wealth, with the resulting inequality of opportunity, makes it impossible that mere freedom of enterprise should give us the fittest men for the work of organizing production. On the other hand, the State is not in a position to appoint them; it would be difficult to devise any method by which it could select them. The alternative is to leave the organization of production to free enterprise—*i.e.*, to the men who offer to do it at their own risk, and take steps to accelerate the elimination of the unfit.

Nothing has a more selective influence in eliminating unfit organizers than the imposition of conditions by effective Trade Unions or the State. As was pointed out above, the problem of efficient production admits of alternative solutions. The imposition of conditions may make the problem a little more difficult, but it does not make it insoluble. In industry, as in art, "limitations are the artist's opportunity." Or a parallel may be drawn from golf: you do not make it impossible to go round in bogey by bunkering the course; you only make it impossible for the second-rate player to maintain competition with the first-rate player, and make it easier for the latter to establish his superiority. Factory Acts, Wages Boards, the standard rate, taxes or other penalties on irregular employment, are so many bunkers for the employer who has missed his vocation. For the natural organizer they are opportunities; if they make his task more difficult, they tend to extend his influence and increase his profits by removing competitors and enabling him to absorb their trade.

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IV

LABOUR ORGANIZATION

“ Whatever advice, exhortation or guidance is held out to the labouring classes must henceforth be tendered to them as equals, and accepted by them with their eyes open.”—J. S. MILL, 1848.

“ For more than forty centuries humanity has remained in bondage—I do not say to masters (for such are of the order of the flesh, of which I am not speaking here: and their chains break sooner or later), but to the phantoms of their own minds. Such servitude comes from within.”—ROMAIN ROLLAND, 1916.

THE War has produced many revolutionary changes in thought and ideas, but none more vital than the recognition that the welfare of society depends upon the working class. It remains to be seen, after the War, how far we have really got rid of the old tradition of the inferiority of labour; but to-day, on every side, it is being asserted that no new social policy, no reconstruction of industry, is possible without the consent and co-operation of the organized workers. “ We are at present in a half-way position in the relationship of capital and labour, and to go backward is neither possible nor desirable. Unorganized labour would abound in sectional disputes, and would render satisfactory settlements impracticable.”* The fact is that the great

* See article by Sir Joseph Compton-Rickett in *Contemporary Review*, June, 1916. For similar statements, see *Edinburgh Review*, April, 1916; *Nineteenth Century*, May, 1916; *Round Table*, March and June, 1916.

upheaval in which we are involved has not only wakened in us a "sense of community"; it has shown us how far we are from being a united society; it has brought our industrial system under the X rays, and made manifest its defects.

One of the good results of the War, it is said, is the revelation of the fundamental community of interest between employer and worker, especially in the matter of output. Not only the parties directly involved, but the nation as a whole has a vital interest in raising our productive powers to a maximum. For one thing, we have to pay for the War, and there is the further possibility of a struggle for commercial supremacy with the Central Powers. Discussing the resolutions of the Economic Conference in Paris, published on June 21, 1916, Lord Derby stated: "We have to reconstitute ourselves as a new nation from the commercial point of view."* The reconstruction of our commercial life, whatever its merits, involves some measure, at least, of industrial reorganization. Until the outbreak of the War, the problem of the relations between capital and labour was regarded even by critics of the industrial system† as one of collective bargaining for the division of the product, rather than as one of joint production for the general good. Regarded from the latter standpoint (that is, from the standpoint of the community as a whole, and not from that of one economic class alone), it has inevitably come to be recognized as ultimately the problem of the control of production. The nation's necessity has given labour a new prestige. The community, through the State, has recognized the national

* Address to the Liverpool Chamber of Commerce, June 22, 1916.

† See *The History of Trade Unionism*, by S. B. Webb.

status of Trade Unionism, and competent observers, within industry and outside of it, have realized the necessity of giving labour a share in industrial control. How far the recognition will stand after the War is problematical. It depends largely on the capacity of the British Labour movement to accept the responsibilities involved.

“The terms of employment after the War,” says Mr. Harold Cox, “must be fair. . . . The real problem is the problem of wages.”* As already indicated, the real problem is not one of wages, but one of *control*, and in discussing the relation between labour organization and national welfare, we shall take that standpoint; but the quotation usefully indicates the difficulties in the way of those who try to interpret the Labour movement from the outside. Regarded merely as a “wages and hours movement,” Trade Unionism, the part of labour organization with which we are mainly concerned here, is inevitably misunderstood. Labour consists of human beings, each one with his or her standard of life, each one putting a value on various activities and possessions. The Labour movement, therefore, is human. Its aim, conscious or subconscious, is the expression of personality, individual and collective. With the possible exception of the most depressed grades, every member of the working class has a class standard of living, varying, it is true, between trade and trade, and between localities, but there all the time. As industry is at present organized, there is no security for this standard. The Labour movement is the spontaneous attempt of the working class to get that security. Wages are a means to life, and no more,

* Article on “Industrial Reconstruction,” in *Edinburgh Review*, April, 1916.

and while the Trade Union movement has been and is primarily "an organization for protecting the standard, and, as opportunity occurs, lifting it up," this is only its immediate aim. As the standard is forced up, other aims previously subconscious become definite and explicit. To-day the wage-earner is dependent, all his life, on an employer. But, as his horizon widens, he is beginning to demand something more: responsibility, self-government—in a word, freedom. Consciously or subconsciously, large numbers of wage-earners have grown tired of unmodified dependence on unmodified Capitalism.* As a Trade Union official put it to the writer lately, "There's many a man in our union who is tired of Capitalism, only he doesn't know it."

It is not enough, therefore, to insist on fair terms of employment after the War. There is always more than one side to a question, and the disputes which will arise over the interpretation of what is "fair" can only be settled by the co-operation of both sides—that is, by granting organized labour some share in the management of industry. Broadly and humanly speaking, pure dependence and willing co-operation are impossible as a permanent combination in social life. So far, it may be granted, the organization of production on a basis of wage employment, controlled by the owners of capital, is the only system which has *proved* itself, under modern conditions, to be workable. It is thus the origin of the proprietary ideas of capital on the one hand, and the defensive attitude of labour on the other. But for a

* "I.e., modern methods of production directed for the profit-making purposes of capital . . . characterized by the dependence of large bodies of workpeople on the provision of capital by investors, induced thereto by the motive of profit."—Prof. Ashley, *Economic Organization of England*, pp. 173 and 180.

generation labour has been becoming more aggressive—partly as the result of new political ideals and the emergence of class-consciousness, partly owing to the gradual extension of Trade Unionism, and in recent years owing to the struggle to make wages keep pace with the rise in the cost of living. We have seen that as a result of the diversion and reorganization of production for war purposes, labour has gained in prestige. It has also gained in economic power, and it is conscious of both facts. But while the rise in status is likely to be permanent, the gain in economic power is only temporary and may be lost in the dislocation that peace will bring. The Trade Union movement is not strong, but weak. It has surrendered its traditional safeguards in the national interest. After the War, in new conditions, and in the face of a strong public sentiment against “limitation of output” in particular, and restrictive regulations in general, it is unlikely that it can resume its old weapons. It must therefore find new defences. The community must be brought to full recognition of the truth that its well-being depends upon labour. This gained, the power of organized labour to control its own destinies—the possibility of an industrial democracy arising out of the ruins of war—will depend, firstly, on its strength and cohesion, and, secondly, on the extent to which, by self-discipline, it can vindicate its capacity for partnership in industrial management. A short survey of the main features of labour organization when war broke out will help us to a better valuation of the place and function of Trade Unionism in the social system. This will enable us profitably to examine the effect of the War on the Trade Union movement, and to discuss post-War problems and policy.

I.—MAIN FEATURES AND PROBLEMS OF BRITISH TRADE UNIONISM.

The European War came at a critical period in the history of the Trade Union movement. A trial of strength on a large scale between labour and capital seemed to be imminent. In April, 1914, at a joint conference of the three bodies concerned, the great Triple Alliance of miners, railwaymen, and transport workers, "with a view to co-operative action and the support of each other's demands," had been formally proposed. This scheme was a direct result of the industrial unrest of the previous four years. The War caused the scheme to be temporarily shelved, and along with it the new national programme of the railwaymen which was to be inaugurated when their conciliation agreement expired in the autumn. Further, the scheme for the amalgamation of the transport and general labour unions was allowed to drop. These proposals were part of a forward movement on the part of labour. In 1905 there were less than 2,000,000 Trade Unionists in the United Kingdom. By 1910 the number organized had almost reached 2,500,000, and in 1914 it was just short of 4,000,000. This increase was largely due to the "industrial revival," which became marked about 1910. The emphasis on direct action for the attainment of working-class aims produced a campaign against the non-unionist, whose presence in the factory or "shop" has been the cause of many recent strikes. Many of the workers had awakened to the fact that capital was now organized on a large scale, and that nothing but close consolidation within the Trade Union movement would avail to preserve such effective bargaining power as had already been achieved. Thus, we find a growing

movement towards amalgamation, which materially added to the ranks of Trade Unionism. In the building industry, for instance, the membership rose from 156,985 in 1910 to 236,524 in 1914. Of this increase, 32,000, among the carpenters and joiners, was due to the impetus given to organization by the fusion (1911) of the Scottish Associated Carpenters and Joiners with the Amalgamated Carpenters and Joiners. Similarly, in transport, the number of organized railwaymen increased from 116,214 in 1910 to 336,671 in 1914, and seamen showed a remarkable increase from 25,930 in 1910 to 128,921 in 1914. On the railways, the amalgamation movement, culminating in the formation of the National Union of Railwaymen in 1913, was the main cause of the increase.* In some employments the Insurance Act of 1911 has been a very big factor in the increase of membership. Thus, it produced a jump in the number of organized shop assistants from 58,375 in 1911 to 108,000 in 1912. In the town of Keighley, in Yorkshire, the Act has brought nearly all the iron-founders in the district into the local union.

In spite of all these advances, however, there are still about 11,000,000 wage-earners—or three-quarters of this class of the population alone—outside the industrial Labour movement.

* For other striking figures, see *The Labour Year-Book*, 1916, pp. 105-110. *E.g.*:

Mining and Quarrying	...	{	1910	...	731,305
			1914	...	915,734
Cotton ...	...	{	1910	...	274,440
			1914	...	352,822
Woollen, etc. ...	...	{	1904	...	8,687
			1910	...	21,309
			1914	...	31,213
General Labour	...	{	1910	...	118,745
			1913	...	390,596

The problem of the extension of membership is fundamental, but it is closely connected with another—the question—“How is the existing membership to be consolidated?” This is a problem of many aspects. The British Trade Union movement is usually compared in this connection with that of Germany. “German Trade Unionism,” says Mr. W. Stephen Sanders, “has developed certain important features, especially the capacity for building up great organizations embracing practically all types of workers in all branches of industry, which are well worth studying by those British Trade Unionists who consider it time that a process of amalgamation should reduce the large number of separate unions in this country.* The membership of the centralized unions in Germany is 2,500,000 (1913), and the number of unions has been reduced to forty-seven, all being linked up to a General Commission which has its headquarters in Berlin, with an elaborate departmental organization exercising strong bureaucratic control. In the United Kingdom, on the other hand, we find 4,000,000 Trade Unionists organized in 1,123 separate unions and without effective central control. It is true that the total membership has doubled since 1900, and that the number of unions has been reduced by nearly 200 in the same period, but the figures show that there is still room for an immense reduction in the number of unions in this country. Nevertheless, it would be misleading to say that the figures given accurately indicate the difference in unity of organization between the movements in the two countries. In this country Trade Unions grew up locally, mainly in the form of exclusive bodies of skilled crafts-

* *Trade Unionism in Germany*. Fabian Research Department, 1916.

men. The first large "national" union was the Amalgamated Society of Engineers, established in 1851. To-day the majority of unions are still local in character, although the majority of the membership is in the smaller number of national unions, and the tendency is strongly in the direction of centralization. Moreover, such organizations as the district federations of the miners, linked up as they are in the strongly centralized Miners' Federation of Great Britain, while technically local unions, are in effect component parts of a great national industrial union. The numerous local unions in the cotton industry are, for the most part, closely linked in national federations, so that it is impossible to describe the industry as unorganized. If we allow for historical circumstances, the sectionalism and lack of co-ordination in this country will be recognized as a not entirely inexcusable defect of British Trade Unionism. In some Continental countries—as in Germany—the industrial side of the Labour movement has largely been created, controlled, and directed by previously existing political labour parties. In this country, however, we have had a groping, experimental, pioneer movement growing up out of the Industrial Revolution, on no systematic plan, and still remaining unorganized, when younger movements abroad, having profited by British example, have avoided some of the British defects.

The confusion produced by a multiplicity of unions, many of which cater for the same classes of workers, is added to by differences of structure. The basis of organization may be craft, kindred craft, or industry. The craft union seeks to organize in one association all those engaged in one craft or process. Such are the bricklayers, the ironfounders, and the boilermakers. In

some parts craft unionism is axiomatic, as among the Sheffield cutlers, where nearly every little process is represented by its separate union. Association of kindred crafts—more loosely called “occupational unionism”—is a more social principle. The idea is that all workers in related processes should be organized together. A good example is the National Amalgamated Union of Enginemen, Firemen, etc., which invites all enginemen, firemen, steam-engine makers and users, motormen and electrical workers, to join its ranks. Another instance is the National Amalgamated Furnishing Trades Association, and further examples are to be found in the woodworking and metal trades. Industrial unionism seeks to organize in a single union all workers, skilled, semi-skilled, or unskilled, who combine to produce one aggregate service or product such as railway transport, building, coal, or ships. The National Union of Railwaymen is industrial in structure; the Miners’ Federation of Great Britain approximates to an industrial union; the Amalgamated Society of Engineers, since it revised its rules in 1915, has become industrial in structure, though still in practice a union of kindred crafts.*

Union by industry cuts across the principle of craft unionism. In a complete industrial union craftsmen would no longer be organized separately from unskilled workers. Nor would women be excluded from men’s unions.

The idea of industrial unionism is part of the “new offensive” which the Trade Union movement has

* According to the new rules, it opens its membership to all workers in the engineering trades and to “all other workers engaged in the metal industry and trades constituting societies who may hereafter agree to amalgamation.”

developed since 1910. With every variety of combination in the field, conflict was inevitable. We see one of its results in the struggle between the railwaymen and the craft unions. This struggle is to a large extent one between the N.U.R. and the A.S.E. Similarly, the miners have differences to settle with craft unionists employed in or about mines. The present is, in fact, a transition period in Trade Union organization.* The situation has been further complicated by the separate organization of the unskilled worker during the last generation.† The "new unionism" of 1889-90 marks an era in the history of British labour. The Gasworkers and General Labourers' Union was formed in London in 1889, and immediately won an eight-hours day. In the same year the Dock Strike resulted in a victory for the men. Within twelve months 200,000 unskilled workers were enrolled in labourers' unions. To-day there are some fifteen General Labour Unions, a General Labourers' National Council, many Transport and Dockers' Unions, and a National Transport Workers' Federation with a membership of 250,000. The last-named body seeks to promote amalgamation among its constituent unions. It is "industrial" in principle, and has therefore come up against the problem of the general labourer whose shifting employment takes him about from one industry to another. When war broke out the Federation was negotiating with the General Labourers' National Council for the amalgamation of all their affiliated unions in a consolidated union of labour.

* "To-day the question of Trade Union structure is the central problem before the Labour movement."—G. D. H. Cole, *World of Labour*, p. 210.

† The specific problem of the woman worker is discussed in a later section.

Common action is the only way out of chaos. Reorganization by industry, through amalgamation, coupled with strong central control, is the most drastic solution proposed. At present there are no more than the beginnings of an amalgamation movement. The Trade Union movement as a whole has not got beyond the stage of federation. Federations exist to make concerted action more practicable—for example, by arranging that all agreements with employers shall terminate simultaneously. In 1914 there were in existence 119 federations of widely varying types, some so weak as to be useless, others so close-knit as to be virtual amalgamations.* Naturally the question of the relative merits of amalgamation and federation was prominent. Another problem facing the Trade Unionist was the question of control and management within his union or federation. Should government be centralized, as among the railwaymen, or decentralized, as in the iron-founders? How far should local autonomy go? Should an industry like building, where the work is local, be organized on a local basis, or should power rest as at present in the hands of national unions? How far should the rank and file control officials? What should be the power of the Executive and of the Delegate Meeting? Relations with employers' associations, the relative merits of conciliation and arbitration, and of the strike as Trade Union methods, and the demand for a share in workshop control, are only the most important among many other questions before the Trade Unions.

We have seen that the problem of central co-ordination and control is unsolved. Two separate organizations are trying, each in its own way, to secure the industrial unification of labour. These are the Trade

* See *Labour Year-Book*, pp. 114-120.

Union Congress and the General Federation of Trade Unions.* Neither has any efficient control over its affiliated unions. The Trade Union Congress, which is little more than a congress, or, as Mr. and Mrs. Webb described it, "an unorganized public meeting," meets annually. It represents 200 unions with an aggregate membership of 2,700,000, or almost three-fourths of the total Trade Unionists in the country. But some important unions, like the A.S.E., are unaffiliated. It elects a Parliamentary Committee of sixteen members, and a secretary to the committee to carry on the work between meetings. It has no central fund, and its normal expenses are less than £3,000 per annum. Although its Parliamentary Committee might be described as a central executive of British Trade Unionism, the congress has no power to enforce its decisions. Probably the most that can be said for it has been said by Mr. Seddon, its president, in 1915: "No one who knows anything at all about political life can have any doubt of the very great value of an annual gathering in which the deep-felt opinions of the Trade Union movement can be expressed in a way to compel the attention of the public." The General Federation was established in 1899. It has now 146 unions affiliated, representing a membership of 1,986,000. "The dominant idea of its founders," says Mr. Appleton, its secretary, "was a strong central organization . . . capable of concerted movement, and backed by a gigantic central fund." It has failed to attain this ideal, and has become a society for reinsurance of Trade Union funds, paying strike and lock-out benefits. It is an approved

* The activities of the T.U.C. are described by Mr. J. A. Seddon, and those of the General Federation by Mr. W. A. Appleton, in the *Labour Year-Book*, 1916, pp. 93-102. Both statements are interesting if *ex parte*.

society under the Insurance Act. Neither of these bodies meets the need of labour for a central body. Neither with its present constitution and membership is strong enough to direct the reconstruction of Trade Unionism. Both are linked up with the political Labour party in a Joint Board which meets occasionally to discuss common problems, but has little authority.* We are not closely concerned here with the political organization of labour. The local federations of Trade Union branches, which we know as trades councils, are not well organized. Their activities should be largely industrial, and originally were so, but most of them now, in such work as they do, emphasize political matters. They were excluded from the Trade Union Congress in 1895, have little or no standing with the big national unions, and suffer from a great lack of funds. They are thus debarred from undertaking general Trade Union work in their districts. As compared with similar bodies in France and Germany, they are ineffective.

Lastly there is the problem of the place of Trade Unions in the social and political system. Even before the War the State had begun to make use of the Trade Unions in connection with the Labour Exchanges, the National Insurance Act, and the Trade Boards Act. The last two measures have assisted combination. The Trade Boards have given a fillip to the organization of sweated workers, especially women. Since 1914, as we have already noticed, the unions have been formally recognized as having a status and right in industry. The State has enlisted the aid of the Trade Unions to provide the sinews of war. Everyone will now go so

* Since the above was written the Trade Union Congress (September, 1916) has passed a resolution to exclude the General Federation of Trade Unions from the Joint Board.

far as to admit that the right of collective bargaining at least can no longer be withheld. But how many will go further? How many will approve of the unions being given a share in workshop control? How many will go further still and recommend that the unions should aim at obtaining, ultimately, the "control of industry"? These questions throw us back on problems that are both theoretical and practical. Is industrial unionism anti-political? Does it lead to syndicalism? Can the employer be dispensed with? Can Trade Unionists ever be satisfied with the control of industry by the organized consumers under a collectivist system? Or must they follow the Guild Socialist and ask for partnership with the State?

These questions have been much in the air during the last decade. The advanced thinkers in the Trade Union movement have been debating them since 1910. It is evident that there is more than difference of structure in the Trade Union movement. There is diversity of purpose. The problem raised is that of Trade Union function. Unless we get our ideas clear on this subject, a discussion of the policy of labour after the War will lead us nowhere.

II.—THE FUNCTION OF TRADE UNIONISM.

The underlying cause of industrial unrest is the feeling in the worker's mind that his personality is being sacrificed to the product. Labour is coming increasingly to think that capital has but one aim, and that the selfish one of profit. If this view is to be approved, we must ask how far it is valid as a criticism of our industrial system. During the past decade, as we saw above, the idea of offensive

action has taken the place of defensive collective bargaining over a large part of the Trade Union world. Does a real class war, then, exist? Many who would admit that there is a diversity of interest between capital and labour would nevertheless hesitate to describe it as a class war. We must be clear, however, that to recognize the class war as a fact is not the same thing as to advocate ceaseless aggression on the part of labour, without consideration of any other method of gaining its ends but that of the strike. Nor does it mean a "social war." Such a conception implies a contradiction in terms. It simply means that within modern capitalistic society there are two economic classes between whom there is a real antagonism of principle and interest, and that those two classes can only reach a final settlement of differences if one or other principle triumphs. But many disinterested observers who are sympathetic to labour take a different view. Denying any fundamental antagonism, they regard industry as a partnership and hope for "the growth of good-will between capital and labour." At the present time, when thoughts are turning to after-War production, this desire for industrial harmony is markedly strong. It is worth while to examine a statement of this plea. In a criticism of the present situation, a writer in the *Round Table** starts from the position that the element of "enterprise" in industry is as important as capital and labour. He quotes Mr. Charles Booth to the effect that "the productive values to be found in the workman's efficiency, great as they are, cannot compare with those which may be achieved by the bold use of capital, or follow the application of

* Article on "Some Considerations affecting Economic Reconstruction," June, 1916.

genius to enterprise"; and deduces that the more enterprising and venturesome the business, the greater must be the payment given to capital for risk taken. Further, on the ground that "the remuneration of capital, labour, and enterprise all come from one source"—the product of their joint activities—he concludes: "It is untrue, therefore, that the interests of capital, labour, and enterprise are essentially antagonistic. They have all one great interest in common—namely, that there should be the greatest output of useful and productive wealth with the least effort and sacrifice. Their interests in the division of that output are not identical. But if, in quarrelling over the distribution of wealth, they diminish its production, they must suffer and the community also." Now, the basis of this opinion is that the remuneration of any individual producer at any time is determined by his relative importance in the industrial system at the time, and by his efficiency. In general economic terms, the value of any agent of production is determined by its marginal productivity—*i.e.*, by the productivity of the last unit employed. As neither capital nor labour can control general economic forces, there are on this view only two remedies open: first, a change of heart on both sides; secondly, the co-operation of both to increase output. Capital has often been selfish in the past, labour has been recalcitrant. The moralization of the capitalist to secure justice and higher real wages for labour, and the moralization of the worker to secure the abolition of restrictions on output, is the solution proposed.

The advanced Trade Unionist replies that the superior strategic position of capital gives it the power to obtain a surplus over and above its "marginal product." The economic worth of labour is simply its market value,

and even if a strong organization of Trade Unions establishes collective bargaining, capital has always great advantages in the market. It has control of the raw material. It owns the machinery and the patents. The training and organizing of labour is in its hands. Since its aim is profit, it has the main say in the disposal of the product. The surplus which it obtains may be called remuneration for enterprise and risk. But under modern conditions it is often the reward of a mere speculative deal, and in many cases may go not to the man of ability, but to the shareholder in a joint-stock company. Thus, there is maladjustment even between capital and enterprise. On the whole, however, they work together, and in tacit and open combination against labour. While it is true that all three are remunerated from one joint product, the fact that their joint activities are not properly co-ordinated produces a real division of interest between capital and enterprise on the one hand, and labour on the other. It has been admitted that their interests are not identical as regards distribution. But labour replies that distribution is a central issue. Just as long as labour has no share in the direction of industry, so long will it be unable to secure a humanly just distribution of wealth. It is not a problem of mere economic justice. The worthiest man employed by any firm or company to-day feels that he is little more than a tool so long as he has no part in the management. If he is a valued employee, he may perhaps be consulted by his employers. He and his fellows may even be invited to join a profit-sharing or co-partnership scheme, but even in the latter case he will find that in matters of high policy he has seldom or never a voice in the ultimate decision.* Not "indus-

* See Board of Trade Report on Profit Sharing, 1912.

trial peace," therefore, but "industrial freedom," must eventually be the aim of the Trade Unionist. Modern communities have their eyes on the product. They have forgotten that wealth is but a means to an end beyond itself—the fullest development of individual personality. By its contribution to that end we must judge our industrial structure. Human welfare is a matter of effective personal freedom, and economic wealth is an instrument to that end, not a measure of it.

It would, of course, be untrue to say that the Trade Union movement as a whole has made this analysis. The widespread apathy among rank and file is reflected in apathetic officials. But labour is beginning to move, and there are advanced spirits in nearly all sections of industry. To them the present industrial organization is economically wasteful and socially unjust. Speeding-up by employers and speeding-down by workers is inherent in it, and cannot be got rid of by moral persuasion. The analysis is at least near the truth. The class struggle is a real thing. Active Trade Unionists are conscious of it every day of their lives. But it is a struggle of economic rather than of social classes, for our social activities cut across economic interests. Until we get rid of this economic struggle a true society is impossible. It is a distant aim, no doubt. But unless we can visualize it, and until we criticize existing society in the light of it, we cannot understand the forces and ideas behind "labour unrest." We have still with us old-fashioned critics of the Trade Unions who regard them as "anti-social" organizations. Many Trade Unionists themselves, mainly of the older generation, think of their union as merely a benefit-paying society. Sympathizers outside the ranks are, in the main, afraid lest labour become too aggressive. To all

these the statement, "The first purpose of the Trade Unions is to fight the employers,"* will appear extreme. But in the light of ultimate ideals it is seen to be true. Still, all this does not mean war to the knife and violent revolution. From labour's point of view it is probably a very good thing that many middle-class people should fear a social revolution after the War. It is safe to predict, nevertheless, that no revolution will take place. Labour, in this country at least, has a bias in the other direction. Trade Unionism wants to solve the problems of to-day before it tackles those of to-morrow, and rightly so. The immediate question is how to gain a foothold in the management of industry. This is a matter of the very near future, and its solution must be labour's immediate aim.

Another disputed point raised by the discussion of Trade Union function is the value of conciliation and arbitration. This we can best discuss in connection with industrial policy after the War. But as the whole position of Trade Unionism has been altered by the reorganization of production for war purposes, we must first look more closely at the events of the past two years.

III.—TRADE UNIONISM DURING THE WAR.

So far as organized labour is concerned, we may divide the period of the War into two parts. The first is from the outbreak of war until the passing of the Munitions Act in June, 1915. The second is the period since that date, in which the largest issues raised have been in connection with the administration of the Act.

As we have seen above, the outbreak of war produced an immediate industrial truce. Previous to 1914 labour

* See Cole, *World of Labour*, p. 259.

had recognized the possibility of a European War. In 1907, the International Socialist Congress to which the British Labour Party and the other important labour organizations in this country are affiliated, resolved that it was the duty of the working class to use every effort to prevent war by all appropriate means, "having regard to the sharpness of the class war and to the general situation." The resolution continued: "Should war none the less break out, their duty is to intervene promptly to bring it to an end, and with all their energies to use the political and economical crisis created by the war to rouse the populace from its slumbers, and to hasten the fall of capitalist domination." But shrewd observers had all along held that this resolution did not reflect the real feeling of organized labour about actual war, as distinguished from the abstract variety. Events showed them to be right. National sentiment and common social interests proved stronger than class antagonism. The War was scarcely a week old before it was seen that labour was prepared to postpone industrial hostilities and "see the country through," even to the extent of neglecting its own vital interests. First the Parliamentary Committee postponed the annual Trade Union Congress which was due to be held in September. Then, on August 24, the Joint Board passed this resolution: "That an immediate effort be made to terminate all existing trade disputes, whether strikes or lock-outs, and whenever new points of difficulty arise during the War period a serious attempt should be made by all concerned to reach an amicable settlement before resorting to a strike or lock-out." For the time being labour endorsed this view; the majority of existing strikes were terminated, and new disputes were submitted to arbitration. On August 29 the National

Labour Party agreed to join in the Parliamentary recruiting campaign. The General Federation of Trade Unions was the first of the national industrial bodies to issue a manifesto. This came early in September, and the latter part of it dealt with the economic position created by the War. It criticized relief measures and the payment of soldiers and sailors and their dependents, and demanded subsidies for Trade Unions lest the payment of enormous unemployment benefits should make them bankrupt.* This was followed by a manifesto from the Parliamentary Committee of the Trade Union Congress supporting the War. Then, on October 15, both bodies joined with most of the Labour Members of Parliament and other labour leaders in a further manifesto, in which it was stated that the victory of Germany would mean that "working-class aspirations for greater political and economic power would be checked, thwarted, and crushed." Thus the industrial truce was established.

Previously to this (on August 6) the War Emergency Workers' National Committee had been formed. It represents all sections of the Labour and Socialist Movement, and the Chairman is Mr. Robert Smillie, President of the Miners' Federation. This committee was of great service to working-class interests in 1914-15. Besides activities in connection with relief of distress, war pensions, food and coal prices, and war contracts,† the committee has made a stand against the introduction of child labour, and has been especially active in

* It was commonly believed in the early months of the War that the Trade Unions would be financially ruined (see *War and Democracy*, pp. 326-7).

† In the winter of 1914-15 it conducted a prices campaign against the coal-owners, coal merchants, ship-owners, flour millers, etc., who were making enormous profit at the expense of the working class.

protecting the wage standards of women war-workers. The committee appears to have suffered from internal disagreement troubles since the latter part of 1915, and has been less active since then. Whether it will be a permanent body, and what will be its future position in relation to the Trade Union Movement, are interesting speculations.

The questions with which the Workers' National Committee was most concerned during the first winter of the War—unemployment, the rise in prices, and war profits—ultimately brought the industrial truce to an end. It was not a proclaimed truce. There had never been a formal agreement, but there was an implied understanding that neither side was to exploit the circumstances of war-time to its own advantages. But as production is at present carried on, it is inevitable that general economic forces should, in a war crisis, place capital, or some of it, in a favourable position.* By December, 1914, the operation of "demand and supply" had produced a marked rise in food prices: by February the rise was 23 per cent. above the level of the previous July. There were also large rises in the price of coal and other necessities. The Government refused to take action, and in the course of a debate in the House of Commons on the subject Mr. Asquith assured the working class of his sympathy, but advised them to "wait till June." This speech produced indignation in the labour world, and helped, probably, more than any other event to bring things to a head. All through this period industry and transport had been in a state of dislocation. The iron and steel trades were badly affected; cotton was paralyzed; in the clothing and luxury trades unemployment was general. By October

* Sellers have naturally taken advantage of scarcity.

half the women in industry were either unemployed or on short time. Grievances arose and the number of trade disputes increased. By February it was seen that the industrial truce had ended and labour was at last on the move. In that month forty-seven new disputes began, involving nearly 30,000 workers. Up to that time the only important advances in wages were in the engineering trade. About 50,000 workers had secured advances varying from one shilling to three shillings a week. In February the demand for a war bonus to counteract the fall in real wages became widespread. The railwaymen were the first large body to receive a general advance in this form. All men earning less than thirty shillings per week got a bonus of three shillings; those who were earning more got a bonus of two shillings. Thus was inaugurated a policy which many friends of labour consider to be unwise. The bonus will be just as necessary when the War ends as it is now. If the agreements enable the employers to take off the bonus when peace comes, labour will be weakened in the struggle which is considered inevitable. But in many cases labour has not had the strength to demand a permanent increase. Where it has, the inclination to press matters so far has as a rule been absent. It is noteworthy, however, that during 1916 there has been a fair number of instances of the conversion of war bonuses into permanent increases.

But even a bonus is not always obtainable by peaceful means. On February 16, 1915, the Clyde engineers went on strike to obtain a rise in wages. On March 24, after their action had aroused great public hostility, the Government Committee in Production* awarded

* This committee was appointed on February 4 to find means of increasing the output of munitions.

them an advance of one penny per hour or four shillings per week on time-rates and 10 per cent. on piece-rates, "to be regarded as war wages, and recognized as due to and dependent on the existence of the abnormal conditions now prevailing in consequence of the War." The strike is important, in the first place, because it showed that the national emergency had not modified the stubborn habits of capital in dealing with labour; secondly, because it showed a cleavage existing between Trade Union officials and the rank and file; thirdly, because it made clear the existence of widespread labour unrest. Incidentally it revived the old middle-class habit of abusing the working class. The Clyde engineers had been under a wage agreement since January, 1912. By it their wages were restricted to eightpence-halfpenny per hour until January, 1915. Before war broke out they had decided to ask for a rise of twopence per hour. Since 1913 most other organized workers, including engineers in other districts, had obtained higher wages to meet the rise in the cost of living. A letter sent to the employers by the District Committee of the A.S.E. on December 7 contained a technical error. Taking advantage of this, the employers delayed their reply till December 30 and refused the advance. According to the rules, this made a conference in January impossible. Ultimately, on the threat of a strike, a conference was held on January 19, and a second one on January 22. The employers' final offer was one halfpenny per hour, and the dispute was referred to a central conference on February 12. Had the employers been a little more conciliatory at the outset, it could have been referred to a Central Conference a month earlier. The men broke away from the District Committee and adopted a "stay-in" strike—

i.e., they refused to work overtime on war contracts, and their refusal affected all the important armament firms. The result of the conference on February 12 was that, to avoid disagreement, the men's official representatives joined with the employers in recommending a war bonus of three-farthings per hour. The men's Executive Council prepared to take a vote on this decision, of which the result could not be ascertained till March 9. But the men, knowing what the result would be, refused to wait, and threw over their officials. By the end of February more than half of them were out on strike, and they had formed a Central Withdrawal of Labour Committee. For this action the men have been much blamed and labelled anarchists. It certainly raises an acute constitutional issue, and is a good example of the very imperfect relations between leaders and rank and file which exist in many of our largest unions. Whether we blame the men or not, it is undoubtedly true that they felt strongly the injustice of the employers' attitude, and that their opinion on the point is endorsed by many outsiders. Ultimately, as we have seen, the men returned to work, and were awarded only three-farthings per hour, which left their standard rate below that obtaining in some other districts.

About this time the question of Trade Union restrictions became prominent. On February 8 the Under-Secretary for War, Mr. Tennant, appealed to the Labour Members of Parliament to help the Government in the organization of an army of munition workers. Included in his appeal was the request that Trade Union regulations, so far as they hindered the output of munitions, should be abandoned. The idealistic nature of this speech, showing no understanding of the workers' posi-

tion, may be gathered from the fact that it ignored the question of guarantees and contained no suggestion of a reciprocal limitation of employers' profits. Very naturally the Labour Members pointed out that the problem of industrial organization was by no means so simple that a mere appeal to patriotism could induce Trade Unionism to give up unconditionally most of what it had won by a century of self-sacrifice and hard fighting. They advised him to take the only possible course—negotiation with the unions themselves. Incidents such as this during the War have had but one meaning for most people—they have shown up labour as “unreasonable.” But more impartial observers can see in them a deeper significance. In the first place, they make plain the difficulties in the way of mutual understanding between two classes in the community. Secondly, it makes plain the truth in the statement so often made by supporters of the working class—that, generally speaking, labour gets just that measure of consideration to which its strength and bargaining power entitle it. Both labour and capital are mobilized because both have realized that their relative shares of the product of industry depends so much on their relative strength. Mr. Tennant's speech had a further significance. It was a public recognition by the Government of the extent to which the State is dependent on labour, and it was an admission that private enterprise had failed to solve the vital problem of supplying the nation with munitions. It was plain that if employers regarded Trade Union rules as mere wanton restrictions on output, only Government intervention and all-round guarantees could meet the situation.

The next stage in the organization of industry for war purposes was marked by the Treasury Conference with

the Trade Union leaders of March 17, 1915. Under the Defence of the Realm Act the Government had power to take control of factories in which the production of munitions was being carried on. The Chancellor of the Exchequer, Mr. Lloyd George, proposed that in return for guarantees as to the limitation of war profits, the restoration of Trade Union rules and customs after the War, and the reinstatement of men serving with the colours, the Trade Unions should abandon their restrictive regulations and agree to compulsory arbitration. On the first day the Miners' Federation of Great Britain, being inflexibly opposed to compulsory arbitration, retired. Next day an agreement drawn up by a sub-committee of the labour representatives was accepted by all except the Amalgamated Society of Engineers, who stood out for more adequate safeguards. The A.S.E., however, on obtaining these, signed the agreement on March 25, and a Labour Advisory Committee, which had been provided for, was appointed. Local Munition Committees were then created in such centres as the Clyde and the North-East Coast. On these employers and employees were equally represented, with the usual addition of "impartial" persons. As they were concerned with questions of management, they form an important landmark in the struggle of Trade Unionism for a share in industrial control, but their powers were never defined, and many of their functions were soon transferred to the tribunals appointed under the Munitions Act.

Until the passing of the Munitions Act on July 2, there was no legislative prohibition of strikes. The worker still had considerable bargaining power, on account of the scarcity of labour, and the Treasury agreements were naturally insufficient to prevent this

power being used where injustice was felt. From the point of view of the recently established Ministry of Munitions, this meant that the power of organizing the industry and speeding up production was limited. The new Act provided the necessary machinery to attain these ends. The Act is in three parts, the provisions of which follow logically from those of the March agreements. Part I. declares strikes and lock-outs illegal in specified trades except after three weeks' notice and a failure to obtain a settlement through the Board of Trade. The Act may be extended by Proclamation to any trade. That is to say, it can be applied without consent to such industries as mining and cotton, although the men's representatives have refused to enter the agreement. Part II. creates "controlled establishments" in which profits are limited, and rises in wages or salaries can only take place by permission of the Ministry of Munitions. Trade Union rules are suspended for the period of the War. It is further made illegal for an employer to take on a munition worker employed by a controlled firm within the previous six weeks, unless the workman has a certificate of discharge from his previous employer or from a munitions tribunal. Part III. provides for the establishment of these tribunals, which consist of an "impartial" chairman, assisted by assessors representing, in equal numbers, employers and employees. Labour, in the face of national danger, has thus agreed to surrender its safeguards, and its power to improve its position by means of the strike. It is undoubtedly a fact that the implications of the Act were not generally realized by Trade Unionists at the time it was passed. Many now describe it as "industrial conscription," and however this term be interpreted, it cannot be denied that the

Act in many respects reduced those who come under its provisions to the status of serfs. It has opened the way to immense industrial changes, especially in engineering.

The main happenings affecting Trade Unionism since the middle of 1915 have been connected with the administration of the Munitions Act, and the influx of unskilled and female labour into skilled occupations. Here we can only attempt a short and inadequate survey of these events, but it will lead up to a consideration of the present position of Labour. But the first big industrial event was one which did not arise out of the Munitions Act. This was the South Wales Coal Strike. The dispute arose over the revision of the Conciliation Board agreement. The men had given three months' notice to terminate the agreement. The notice was up on June 30, but the owners would not meet the men until the Government intervened at the last moment. Unfortunately the Government representatives proposed terms which the men considered inadequate. The result was the proclamation of the South Wales coal-field under the Munitions Act on July 13. The effect of this was to bring the dispute under the provisions for compulsory arbitration, to which, be it noted, the miners had previously refused to agree. Nevertheless, the strike took place and lasted six days. On July 19 three Cabinet Ministers—Mr. Runciman, Mr. Lloyd George, and Mr. Arthur Henderson—went down to negotiate, and an agreement was reached which conceded the men's terms, except as to its duration. The strike ended on July 21, but a further stoppage threatened in August over Mr. Runciman's interpretation of the clause which defined the classes of workers to whom the award applied. This was settled in the

men's favour and a new Conciliation Board Agreement was signed. The importance of this strike is twofold. In the first place, it was illegal and yet successful. It proved that a big strike may succeed even when public opinion, backed by an Act containing penal clauses, is inflamed against the strikers. The Munitions Act was thus discredited whenever it was applied without the consent of those who came under its provisions. The miners object to compulsory arbitration on principle. Were they to concede the right to strike on one occasion, they would, in doing so, admit the argument that the use of the strike is inadmissible in vital industries. But this would so weaken their bargaining power, to say nothing of their ultimate aims, that it is precisely what they cannot do. In the second place, the strike is important because it shows that even in time of war labour has to defend its interests. The State had allowed a vital industry to remain in private hands during a national emergency, and when industrial conflict broke out gave its verdict in favour of the strikers, with the implication that the employers have been unreasonable. Such a verdict amounts to a condemnation of the system which made the situation possible. Nevertheless, the general public, ignorant of the real facts, condemned, and still condemn, the strikers.

Arising out of the agreement, sporadic trouble continued in the South Wales Coal-field until March, 1916. There were also disputes over the non-unionist problem. Finally the executive of the South Wales Miners' Federation appealed to the President of the Board of Trade for a settlement by agreement. The result was a conference presided over by Sir George Askwith, the chief industrial commissioner, at which the owners agreed to make membership of a Trade Union compulsory among

all their employees. This agreement is significant as an acceptance of the principle of compulsory Trade Unionism. As a settlement of the non-unionist question, however, it is not one which Trade Unionism can accept as a satisfactory precedent. It is true that it was forced on the employers and the Government by the men as the only way out of the dispute. But it is only for the War period, and compulsion imposed by employers on non-unionists is a different thing from the elimination of the non-unionist from below, by the action and persuasion of the men themselves. Some indication of what the difference means can be seen in the fact that the coal-owners originally wished to deduct Trade Union contributions from wages in the manner of contributions made under the Insurance Act. This proposal, of course, is only in line with general developments in the sphere of industrial control during the war. The State has recognized the Trade Unions, it is true, but at the same time it has emphasized their subordination to itself, and this, in practice, has meant that it has delegated its authority to private employers in "controlled establishments" and elsewhere. It may be said that the individual capitalist or joint-stock company is also under compulsion. Still, when the management of industry is in private hands, the training and discipline of the worker must be entrusted to the private employer. The Munitions Act has meant a vast extension of the power of the State over both employers and employed. *Laissez-faire* has gone overboard. But while the employer is now State-regulated, his subordination is to the State only. The worker, on the other hand, is under a double subjection—to both State and employer. Even if it were granted that in the War emergency the steps taken by the Government were

absolutely necessary, and that it is a gain to Trade Unionism to have got recognition at all, the fact remains that most of the friction in the working of the Munitions Act has arisen from the way employers have used the powers entrusted to them. The "dilution of labour" by the introduction of women and unskilled or semi-skilled labour into skilled employments under the Act, has created a new situation in the world of labour, and has greatly intensified the non-unionist problem.

Before looking at the new position, however, let us glance at the administration of the Act. Firstly, the local Munition Committees to control the output of armaments were to contain representatives of labour. As a matter of fact, labour was given representation, but almost from the outset, in many important areas, the work fell into the hands of the Management Boards of these committees, from which labour was excluded, on the ground that "questions of management did not concern the workers."* And yet the Trade Unions had agreed to relinquish their rules and safeguards. On the question of these local committees an agreement was come to between the A.S.E. and the Ministry of Munitions on December 31, 1915. Nothing seems to have come of it, and the Ministry is still appointing unrepresentative "Labour Advisory Committees" all over the country. Secondly, it was widely felt in the ranks of labour during the first six months of the operation of the Act that the limitation of profits clause was being widely evaded. Whether or not this be true, it is undoubtedly difficult to enforce such a clause, and the suspicions of labour have never been quite allayed.† In any case, the employer is allowed to

* See *Round Table*, June, 1915, p. 735, footnote.

† The accounts go up to the Ministry of Munitions, where they are very carefully scrutinized.

return 20 per cent. over and above his pre-War profits, and, in addition, can claim special allowances. Trade Unionists have felt, in short, that the "equality of sacrifice" which the Munitions agreements implied has not been realized. Thirdly, the cases tried before the tribunals which have been set up to enforce the provisions of the Act, have shown up many examples of friction arising over the abandonment of Trade Union regulations and the infliction of penalties for breaches of rules. On these tribunals the labour "assessor" was originally nominated by the Ministry of Munitions from the panels set up under the unemployment section of the Insurance Act. This man had, as a rule, no knowledge of engineering, which caused much dissatisfaction in the A.S.E. The agreement of December 31, 1915, however, remedied this. In future the workmen's assessors were to be chosen by the Unions concerned. This agreement, however, was not put into operation until March, 1916, and the assessor still remains a mere assessor without power to vote. Moreover, none of the various concessions won by the A.S.E. at the end of 1915 affect the fundamental grievance of the worker—the fact that by Section 7 of the Act his personal liberty is restricted. Unless he is prepared to face unemployment for six weeks, he cannot leave his work without his employer's consent. One of the main functions of a tribunal under the Act is to decide whether or not consent has been unreasonably withheld by an employer. The journals of the Trade Unions have been full of instances in which the employers, and in some cases the tribunals also, have been flagrantly unjust. For instance, when a Manchester fitter asked for a certificate on the ground that he had been doing private work for five months, the tribunal

held that he was "morally doing Government work," because the firm stated that he would be put on to the latter "as soon as the machines were ready."* Similarly men have been refused certificates because they were "available" for Government work.

The Munitions Act has been well named the "Workers' Slavery Act." It is evil in principle, and if it is to be administered at all, some hardship and unfairness is inevitable. This should nevertheless be reduced to a minimum. If, as has happened in countless instances, private employers and managers take advantage of the national emergency to inform men who are not even soldiers that they must do as they are told and raise no objections, it is certain that the very independence of spirit which is the basis of our vaunted "British freedom" will produce rebellion. The fact is that employers and foremen have often expected impossibilities from the men. Trade Unionists are not angels, and there have been faults on both sides, but this is no justification for arbitrary action by employers. "The narrow and one-sided administration of this Act by the employers," says the secretary of the Associated Iron-moulders of Scotland in the Society's journal for November, 1915, "has become so irritating that it is now almost unbearable." The grievances which this official enumerates are typical; for instance, arbitrary refusal to grant leaving certificates even in exceptional circumstances; excessive overtime for those employed while others are walking the streets; transference of men by the Board of Trade to districts in which men were idle; starting of non-unionists in "union" shops without previous notice or consultation; starting women in the same way. Again, in the A.S.E. journal for

* See *The Herald*, December 4, 1915.

November, 1915, the general secretary points out that employers are using the Act in a way which its framers never contemplated, by introducing unauthorized rules and regulations. "While willing to help the Government," he says, "we cannot allow employers to make shop regulations apart from the Act, which conflict with the usual working conditions of the 'district.' " In the agreement with the Government on December 31 it was conceded, as a result of pressure by the A.S.E., that no rules other than those issued officially by the Minister of Munitions may be adopted without preliminary discussion with the Unions concerned.

It is in connection with Trade Union regulations for demarcation of work and the process of "dilution" in general that the operation of the Act has most vitally affected the Trade Union movement. The dilution arrangements have been carried out in the face of considerable opposition to the methods adopted. Unrest has been most noticeable on the Clyde, and matters came to a head there in March, 1916, when 1,500 skilled men came out on strike. Once more the rights and wrongs of the dispute were imperfectly known to the public, and the men were widely condemned because their action involved the stopping of essential supplies to the army and navy. Further, the strike was unauthorized by the A.S.E., and was therefore unconstitutional. This made it possible for some newspapers to present it to the public as a conspiracy to stop the supply of munitions. What are the facts? Briefly, it began as a spontaneous shop strike at Parkhead Works, where the convenor of shop stewards, Mr. David Kirkwood, was refused entry into a shop where dilution was in operation, to discuss questions of wages and conditions with the women employed. The reason given was

that Kirkwood, being an employee, must do what he was told. The view of the men was that his privilege of going through the works, being guaranteed by an agreement, was a right, and that with the approval of the management it had been exercised ever since the War broke out in such a way as to reduce friction and increase output. They now suspected that the privilege was being withdrawn in order to facilitate the cheapening of rates in the shell shops. After departmental meetings the men struck. The men at the Diesel Engine Works were asked to do the finishing work which would otherwise have been sent on to Parkhead. This raised a demarcation question, and they struck in protest. When the Government began to "deport" shop stewards to the East of Scotland, six other shops, in which there had been considerable unrest, struck in sympathy. The deportations brought the strike to an end in about a fortnight. They raise grave questions affecting the liberty of the men.

In addition, it became clear that there was friction within the Unions. The Clyde Workers' Committee, which was associated with the strike, though not responsible for it, was formed after the wages strike in February, 1915, and its aims are stated as follows:

"Our purpose must not be misconstrued; we are out for unity and closer organization of all trades, one union being the ultimate aim. We will support the officials just so long as they rightly represent the workers, but we will act independently when they misrepresent them. Being composed of delegates from every shop and untrammelled by obsolete rule or law, we claim to represent the true feeling of the workers."

Obviously the value of such an organization depends on the use made of it. If it is deliberately and wantonly set up against the official District Committee and the

executive it will merely produce anarchy. But a committee directly representing the men in the shops might well be of great value to the unions concerned. It is worthy of note that the Clyde Workers' Committee had given considerable assistance in the carrying out of the dilution schemes. One of the leaders, Mr. Muir, was convener at Barr and Stroud's works until April, 1916, and helped to arrange a reasonable scheme which worked so well that there were practically no hitches in the employment of women and unskilled workers, while he himself could enter any department to inspect conditions provided he informed his foreman that he was leaving the work to do so.

If we now look at the problem of dilution as a whole, we shall see that the most important question which arises is, "How far has the State been able and willing to perform its part of the bargain?" Discontent over the operation of the Munitions Act has not been confined to the Clyde. All over the country Trade Unions have been passing resolutions in favour of drastic amendment of the Act so as to give labour some real control, local and central, over the production of munitions. This has not been granted, the idea being, as Mr. Lloyd George informed the Clyde workers at Christmas, 1915, too revolutionary to suit the powers that be. We have already referred to the concessions secured by the A.S.E. on December 31. According to this agreement, the circulars known as L 2 and L 3, issued by the Ministry of Munitions, were to become binding in all establishments owned or controlled by the Government. These circulars deal with rates and conditions of labour, and safeguard the standard rates of skilled men against the competition of women and semi-skilled or unskilled men. Minimum rates are fixed for these three classes. The A.S.E. Executive appears to have abided loyally by its

agreement, and in the Clyde strike refused to pay benefits or give any support to an unconstitutional action. But the Clyde strike appears to have arisen largely because the men were convinced that the agreement was not being fairly carried out. For instance, in February, the Clyde Commissioners interpreted Clause 1 of Circular L2 to mean that a woman doing work formerly in the hands of skilled men is only to get a fully skilled man's rates when she is doing a man's work in its entirety. In practice this interpretation gives an employer the opportunity of cutting rates by making some slight alterations in the work done. The Munitions Department has been unduly slow in carrying out its promises. It was not until the beginning of March, 1916, that it made the terms of Circulars L2 and L3 obligatory in all controlled shops. Not only so, but in April we find that in the electric shop of the Government dockyard at Portsmouth women were doing skilled work at the probation rate of twenty to twenty-four shillings per week where the skilled rate is forty-three shillings. "Unskilled" men were also doing semi-skilled and skilled work at labourer's rates.*

The influx of women into industrial occupations since the outbreak of war was officially estimated in March, 1916, at close on 300,000. Taking into account agriculture, clerical work, commercial occupations, and transport, the number is probably not far short of 500,000.† At most of the annual conferences of Trade Unions held this summer (1916) the question has

* See *The Herald*, April 22, 1916, p. 5.

† The total is now (September, 1916) much greater—probably from 700,000 to 800,000. According to the Ministry of Munitions, the number of women introduced into war industries alone had reached 476,000 by July, 1916. See *Times*, July 8.

been to the front, and the danger to the standard wage after the War is acutely realized. The remedy proposed is, in some cases, a minimum wage, in others the enrolment of the women in the Trade Unions. The National Union of Railwaymen approaches the problem from both points of view. In his presidential address at Bath, on June 19, Mr. Bellamy stated: "It is gratifying to note that women workers on railways are joining the union in large numbers. This increases our responsibilities twofold, but these we must not shirk." On June 24, at the same conference, Mr. J. H. Thomas pointed out that "all experience proved that if the members of that Congress talked till Doomsday, they could not get over the fact that many women were being trained to-day who would compete with them afterwards. To assume that when the War was over, women who had learned their business were going to be removed from their occupations was, in his judgment, playing with the question." Therefore the executive committee, in considering the question, decided to approach it from the point of view of the minimum wage. As a result of this policy, women on railways have received additional wages up to seven shillings a week. The basic agreement made by the union with the railway companies, however, only states that the women be paid the minimum of the grade. Inadequate though it is, the railwaymen's policy is an attempt to meet the difficulty. The A.S.E., on the other hand, is not admitting women into the union, although some other engineering unions are doing so. Its attempts to safeguard the rates for skilled work by obtaining the enforcement of Circular L2, as we have seen above, have not been very successful. At last, however (July 8, 1916), the Ministry of Munitions

has issued orders extending the one-pound minimum to work other than that "customarily done by men"—that is, to what is recognized as women's work. Unfortunately, this does not apply to all the munitions industries and is only operative in the big centres. It is therefore only an instalment of an urgently needed reform. Trade Unionists regard the fixing of a general minimum for all women engaged on war work as the best remedy for existing inequalities and for the sweating that is undoubtedly practised.* The difficulties in the way of such a solution are increased by the existence of such agreements as those entered into by the Workers' Union in Manchester, Birmingham, and the Midlands, whereby, though women's wages were raised considerably, they still remained below the one-pound minimum. The result has been that the Ministry of Munitions and the employers have replied to demands for advances in wages by pointing out that they were paying the scale agreed to by the Workers' Union! This is surely a good instance of the bad effects of confusion and overlapping in the Trade Union movement.

It seems futile, however, to expect any more than a makeshift policy from the unions during the war. The A.S.E. is too busy with immediate problems to work out any after-War policy. Many of the members and officials are convinced that the problem will solve itself. The work, they say, is too heavy for the women, most of whom are already tired of it. Also, when production goes back to its normal channels and the present rush of repetition work is over, the skilled engineer who can turn his hand to anything will easily hold his own, even against the semi-skilled man. This is probably a true

* *Manchester Guardian*, July 10, 1916: Article on "Women's War Work."

estimate for many districts, but it seems to leave too much out of account—probable changes in the use of machinery, and the possibilities of standardization of work under a system of “scientific management,” which may be extensively introduced.

In theory, compulsory Trade Unionism would have gone a long way to solve these problems, and the question has been often raised, Should universal Trade Unionism have been part of the Treasury and Munitions Act agreements? We have seen that the elimination of the non-unionist from the South Wales mines last March, while a step forward, was an expedient agreed to by the Government and the employers to end the unrest. It is not so favourable an arrangement from the miners' point of view as it would have been if achieved purely by their own unity and organized pressure. But even such an arrangement as the miners got is impossible in engineering, where sectionalism is rampant. The structure of the industry is such that the idea of excluding non-unionists is Utopian at present. Probably the best scheme suggested has been that of enrolling women and unskilled workers as emergency members of the unions.* But though essentially a practical scheme, the pressure of war work has been too great to admit of any extensive application of it.

This matter of the women introduced into industry during the War is only one part of the general problem of reconstruction which will await solution after peace is declared. It is at least possible, as we shall see in the next section, that reorganization along industrial lines is the only sure method of preventing employers from taking advantage of women and the semi-skilled man so as to reduce the price of the skilled worker's labour. At

* See *Labour in War-time*, by G. D. H. Cole, p. 280.

present, however, the only safeguard is to insist, as the engineers and railwaymen have tried to do, that wherever women are doing the same work as men they should be paid the same rates. The chances of attaining this end are much greater where the women can be induced to join the union.

The problem of joint control is equally vital. When giving up their restrictive rules and regulations at the call of patriotism, Trade Unionists should have insisted on getting in return some real control over their working lives. Trade Union rules do not exist for nothing. They are a substitute, though a sorry one, for joint control, in so far as they act as safeguards against exploitation. One advantage of the Munitions Act has been to show how much they were needed.

It is significant, therefore, to find that some employers have admitted the capacity of organized labour to obtain discipline in the workshop. In common with other armament firms, Messrs. Cammell, Laird and Co., of Birkenhead, were in the habit of bringing numbers of their employees before the munitions tribunals each week in order that they might be fined for "persistently losing time." In October, 1915, they issued a statement to the effect that 10,349 men lost 1,500,000 hours in twenty weeks. But in November the managing director agreed to the election of a committee of Trade Unionists to consider cases of alleged slackness. This committee considers each man's time-sheet, and it is only when a worker in default refuses to accept the committee's finding that he is taken before a munitions tribunal. The immediate result of this arrangement was that nearly all the trouble ceased. In Woolwich Arsenal things have gone further, and the men have obtained control over the process of dilution. The fol-

lowing agreement between the shop stewards and the chief superintendent is worth quoting in full:

“ 1. In each group of shops the skilled workmen are to choose a representative from amongst their ranks, who shall be consulted by the manager with regard to the several kinds of work on which members of skilled trades are to be temporarily displaced by semi-skilled or unskilled workers, and also with regard to the kind of worker, whether male or female, who shall act as such substitute.

“ 2. It shall be likewise the duty of such representative to suggest to the management any description of work on which temporary replacement could in his opinion be effected with advantage.

“ 3. Should there be any points whereon the manager and the men's representative are unable to agree, these will be reported as they arise to the Superintendent of the Factory, or, if need be, to the Chief Superintendent of Ordnance Factories, who will resolve the matter judicially with the men's representative and the manager acting as assessors.

“ 4. The men's representative will continue to hold his position as such until the semi-skilled and unskilled substitutes appointed under the scheme for dilution of skilled labour shall have been removed from the skilled work to which they have advanced.”

The spring and summer of 1916 have seen a revival of wages movements. At the end of 1915 the Government issued a manifesto asking organized labour to refrain from demanding increases of wages, in view of what had already been gained. This attempted embargo on wages has not availed, however, against the pressure of rising prices, and many increases have been obtained. The most striking event in connection with the demand for greater wages is the award (June, 1916) of a 15 per cent. increase to the Welsh miners. This award was made by the Government itself, through Sir George Askwith, in

spite of the opposition of the employers, who were demanding a $7\frac{1}{2}$ per cent. reduction. This means the end of the Government's attempt to keep wages down. It also shows what can be accomplished by solidarity in a large Trade Union, for it was undoubtedly the possibility of industrial action on the part of the men which caused the Government to make the award. The concessions gained by the A.S.E. in December, 1915, afford another example of the same powers. The Labour Party in Parliament had failed to accomplish much, and it required something in the nature of an ultimatum by the engineering unions to gain anything worth having. Whatever conclusion be drawn from these facts, they at least provide some justification of the view that in the long-run labour gets little beyond what its economic power can win for it.

We have left to the end of this section the vexed question of "industrial conscription." There is considerable evidence that many employers have used the Military Service Acts to victimize active Trade Unionists, and it was in any case inevitable that military conscription would produce complaints of unequal treatment and unfair discrimination among industrial workers. Instances of this have occurred in all trades, but the danger of industrial compulsion has naturally been strongest in the munitions trades, where the conjunction of the Compulsory Service Act with the Munitions Act has placed the worker of military age in a position of practical slavery. Guarantees against industrial compulsion have been given repeatedly by the Government, but it is of course impossible to insure that no victimization shall take place. An active Trade Unionist who is in a reserved occupation, or whose employers have obtained his exemption from military ser-

vice, quite legitimately fears that his activities may lead his employers to discover that he can be dispensed with. This will mean that he is "unstarred" or "released," and is automatically forced into the army. Further, the Trade Unionist who knows that in some cases employers have been willing, at the tribunals, to barter away several men already exempted in return for the exemption of another, cannot but feel that he has been reduced to the status of a serf.

The President of the Board of Trade has promised the railwaymen a joint committee with the employers, to determine which men are to remain in their occupation. Such an arrangement is particularly necessary on the railways, since at present the companies have, in this matter, a unique right of veto over any military tribunal. But there seems to be no reason, except the weakness of Trade Unionism, why it should not operate in all industries. Even taking things as they are, it could have been widely applied had the men been more awake to their own interests. The Government has appointed a Labour Advisory Committee to deal with matters of recruiting and the supply of labour for munitions work, but it is beyond the power of such a body wholly to prevent abuses unless the men themselves are more vigilant.

Thus, after two years of war, the position of labour is precarious. In the trades producing war material it has surrendered safeguards wholesale. It has also permitted the limitation of its bargaining power. It has even given up its customary holidays, in spite of months of overstrain. In return it has got very little—much less than it might have insisted on without being "unpatriotic." What is its position likely to be when the War is over?

IV.—TRADE UNIONISM AFTER THE WAR.

One need not be a prophet to forecast the main factors in the situation after peace is declared. Firstly, general economic conditions will be unfavourable to labour. Capital will be scarce and the rate of interest will be high, while wages will tend to fall. There will also be a period of industrial dislocation and consequent unemployment.* Forecasts of the state of trade after the war vary. Some economists think that a period of trade depression will follow close after the peace. Others predict a trade boom. There are historical parallels to support both views, but while it may be granted that a crisis will come sooner or later, the view that there will be an "initial peace boom" followed by depression two or three years later seems the sounder of the two. "After the first few months of transition, the very destruction and check to new creation of capital for which the War has been responsible will be sure to have left open immense fields for profitable enterprise. It is particularly certain that to make good the havoc and waste of war there will be a strong industrial boom."† In the event of a European commercial war following upon the present military operations, these forecasts would require modification, just as any estimate of the future of the Labour movement in this country depends upon whether or not conscription becomes an integral part of the social system. In the first case economic reconstruction would be much delayed, and in the second case, the Trade Union movement would be seriously weakened, if not partially destroyed. As

* See *The Economy and Finance of the War*, by Professor A. C. Pigou, p. 87, 1916.

† Pigou, p. 88.

things are, labour must realize that it will pass through two periods of serious economic dislocation—the period of the readjustment of industry to peace conditions, and a period of acute trade depression. These periods may or may not overlap. In them the fate of Trade Unionism during the next generation may be decided.

Secondly, there will be a renewed opposition of capital and labour. Signs of it are present already. So moderate a labour leader as Mr. Ben Turner, of the General Union of Textile Workers, states the probable conditions as follows: “ We must now prepare the way for peace. It is coming, and with it we may find there will be war at home in place of on foreign battle-fields. It will be an industrial war. It may be a fierce one. It will need all the Trade Union strength to protect the workers. The employers’ federations in all parts of Great Britain are merging together to use all the agencies of Parliament, public bodies, and their own domestic powers to meet whatever comes in the future. *We as workers must have the same powerful organization as they have, for just as our strength is, so is their respect for us. Weak they despise us: strong they meet us and come to talk with us and make agreements with us.*”* It is possible that this struggle will be intensified by the attempt to retain the higher standard of family income to which many of the working class have become accustomed during the war.

Thirdly, the industrial situation will also be unfavourable. Demobilization is a mighty problem in itself, and many of the best minds of the country are already trying to find ways and means of coping with it. Whatever course is taken, it is essential that the process should be gradual. Suddenly to throw 3,000,000 men

* Half-Yearly Report, June, 1916. (*Italics mine.*)

on the Labour Exchanges is so obviously a suicidal policy that it is inconceivable that any Government will allow it.

As a preliminary step, all Trade Unions should secure guarantees through the Government from the employers that men who have joined the army will be reinstated in their civil employment after peace is declared. The Miners' Federation is trying to obtain such a guarantee for the 250,000 or more miners in the army. A national committee of some kind, with subsidiary local committees, will be required to deal with the general problem. These committees ought to contain an equal number of representatives of employers and of labour, besides Government nominees. They may be mainly advisory or they can work along with the Labour Exchanges in carrying out the general policy of the Government. The idea of an extended "holiday," or employment on work of national importance on a minimum living wage, for all soldiers, until they have got work, or for twelve months, has been brought forward in many places, and, if carried out, would in the long-run prove the most far-sighted policy. But one fears that neither Parliament nor the Treasury will rise to the occasion.

The disbandment of three million or more workers in the war trades is a closely connected problem. So huge is the number of human beings involved, that it seems Utopian to expect anything but confusion. The proposed extension of unemployment insurance to these workers so long as they remain in the munitions trades, and the giving of ten or twelve shillings a week unemployment benefit to soldiers for a year after peace, are not measures which will go very far to ease the labour situation. A large part of the emergency labour will remain

in the market. Let us take the case of the miners again. By March, 1916, 160,000 new workers had been introduced to the mines in part replacement of the 250,000 who had left. It is therefore necessary that the various Miners' Unions should obtain (1) a list of all the men employed in each pit when war broke out, (2) a list of the new men introduced since then. If, in addition, the Miners' Federation obtains guarantees that the temporary labour will, as far as is necessary, be displaced by the returned soldiers, the first step in a difficult business will be accomplished. Similar measures should be taken in all the organized industries. It is in engineering that the biggest problems have to be faced. Great changes have taken place in the methods of production. Complex processes have been resolved into numerous simple processes which can be performed by unskilled labour or by women. To restore the pre-War restrictions and regulations will in many cases be both useless and impossible. The State cannot carry out its undertaking to do so. The position in engineering has been discussed in previous sections of this chapter. It simply remains to add that while this problem of the displacement of emergency labour is largest for the engineers, it is present throughout the greater part of industry, and is the crux of the whole situation. Unless the unskilled, the semi-skilled, and the women workers are organized, the Trade Union movement is in some danger of being destroyed.* In the long-run, there is only one way in which the danger can be met, and that is by a reconstruction of the Trade Union movement.

This brings us back to the question whether craft or industry is to be the future basis of organization.

* For an analysis of the problem, see Cole, *Labour in War-time*, pp. 282-291.

Informed opinion is coming round more and more to the view that the industrial principle must triumph. Indeed, it is not too much to say boldly that most of the problems of Trade Union organization—the specific problem of the place of women in industry, demarcation of crafts, relations of skilled and unskilled, amalgamation versus federation—will be solved in the process of reconstruction on industrial lines. In each industrial union distinction of crafts can still be preserved, so that each craft will have representation on the executive and the governing committees. To show how the War itself has contributed to this development, we may take the elaborate dilution agreement, published on June 14, 1916, between the Admiralty and the Boilermakers and Shipbuilders' Unions on the Clyde. In it the men accept the principle of interchangeability between crafts, the suspension of demarcation between skilled and unskilled work, and the drafting in of skilled men from other trades. Provision is made for a record of these adjustments being kept in order to protect the men, but the restoration of pre-War customs and rules is inconceivable. It is significant to find a prominent daily newspaper recognizing what this means, and going so far as to say in a leading article that "one development made practically certain by the revolutionary dilution of skilled labour and the removal of internal boundaries between trades and grades, is the rapid advent of industrial unionism—one union one industry, instead of one union one craft. Left to themselves, the Trade Unions would have made the advance in that direction slowly and through destructive contests. It looks now as though Government control in war-time would bring it about through irresistible pressure."*

* *Manchester Guardian*, June 14, 1916.

know the deep-seated antagonisms of the craft unions, this statement sounds a little optimistic, but it indicates the direction which Trade Union organization must take. Discussing the same question from the point of view of women workers, Mrs. Bosanquet and Miss B. L. Hutchins take up a similar position.* "The best results," says the former, "are undoubtedly attained by the recognition that the interests of men and women are fundamentally inseparable. . . . When men and women are employed in the same industry, the right policy is for them to combine in the same union. The organization of women in their own separate unions is much like the task of drawing water through a sieve, so hard it is to attract them in and so hard again to hold them there. It seems likely that the best chance of organizing women with any degree of success lies in the development of "industrial" as contrasted with "craft unionism."

If the unions can only grasp the industrial principle and work steadily and in co-operation for it, the future of labour will be comparatively safe, in the absence, at least, of fundamental changes in the whole economic life of the community. But the way to industrial unionism is strewn with obstacles, and the immediate problem facing the Trade Unionist is to effect the transition without a conflict between the organized craftsmen and the big industrial unions such as the railwaymen and the miners. At present there is bitter conflict between the National Union of Railwaymen, on the one hand, and the engineers, the boilermakers, and kindred craftsmen, on the other. Somehow or other, agreement must be reached, and the craftsmen on the rail-

* See articles in *Economic Journal*, June, 1916; also *Women in Modern Industry*, by B. L. Hutchins, 1916.

ways must in future be organized in the N.U.R. Those already organized in craft unions may be allowed to remain there, provided it is arranged that they co-operate with the N.U.R. under its control when industrial action is decided on. Similarly, there must be some system of co-operation between the General Labour Unions and the unions of skilled workers. These General Labour Unions draw their membership from nearly all industries. It is obviously impossible to destroy them, and it is better to have the unskilled worker organized than unorganized. If, therefore, an ordered industrial unionism is to grow out of the confusion and overlapping of to-day, the unskilled worker must co-operate in the process, and it would seem that the General Labour Union must be regarded as having the function of organizing the migratory labourer until an appropriate union is found for him. "It ought to be a sort of Trade Union clearing-house, retaining only such members as could not well be permanently organized in any other way. As soon as a worker came to be permanently employed in some organized industry, the General Labour Union should surrender him to his appropriate society."*

The question of the relative merits of federation and amalgamation is being settled by the actual necessities of industrial action. It is becoming more and more plain that even in such cases as the cotton industry, which is localized, the principle of federation is inferior in its working to that of amalgamation. A federation, in fact, tends to be successful in proportion to its strength—that is, in proportion as it approximates to an amalgamation. Amalgamation of the competing unions within each industry is the preliminary step to complete

* See G. D. H. Cole, *World of Labour*, p. 240.

industrial Unionism. It is encouraging to note that in the iron and steel trades a propaganda to bring about amalgamation has been conducted by means of conferences throughout the country during the summer of 1916. The amalgamation movement has, indeed, progressed in spite of the War. But the value of organized propaganda by a central authority has not yet been realized by the British Trade Union movement.

In addition to the question of structure, there lies before organized labour the intricate problem of constitutional reorganization. What are the respective merits of centralization and local autonomy as methods of Trade Union government? The answer is plainly dependent on the nature of the industry which is under consideration. It will vary as between a localized industry such as building, and a centralized one such as railway transport. But in every case centralized control of finance and central sanction of strikes will be necessary, even when in a localized industry a considerable amount of local freedom of action is necessary. What is required is unity of action. This means strong central control, such as is already realized in the N.U.R. It also means that sectional and local interests must be represented on the union executive; otherwise there will arise all the horrors of bureaucracy. The A.S.E. is usually given as an example of a bureaucratic union, and the N.U.R. as one which, though centralized, has partly solved the problem of giving expression to sectional interests and local opinion. Again, however, it seems necessary to repeat that these problems are only capable of solution when the non-unionist has been eliminated and complete industrial unionism has been realized. The need for a real national authority in British Trade Unionism has already been emphasized. Of the five

national bodies at present representing labour—the Trade Union Congress, the General Federation of Trade Unions, the Labour Party, the Joint Board, and the Workers' War Emergency Committee—not one is representative of the whole of organized labour. Undoubtedly the Trade Union Congress ought to be the recognized central authority on the industrial side, and it must ultimately become such a body, with all the unions affiliated to it and under its control. The General Federation must also come under its authority as the insurance section of the movement. The reconstituted Joint Board would then become the link between the industrial Labour movement and the political Labour Party "without power to deal with purely industrial or purely political questions."*

It would be idle, however, to pretend that the average Trade Unionist has thought out these problems. He has not. But happenings during the War have made him much more alive than he was before to the community of interest between all the workers, organized or unorganized.

But what of the unorganized workers, of whom there are some 11,000,000? Even organized labour has been unable, in war conditions, when every attempt to obtain increased wages is likely to be denounced as unpatriotic, to keep its real wages up to the pre-War level. The more depressed section of the working class has been in worse state. Faced with a 60 per cent. rise in food prices, it has been unable to protect its standard, and

* See *Trade Unionism in War-time*, by G. D. H. Cole and W. Mellor, 1915. (Pamphlet.)

The recent decision of the Trade Union Congress (September, 1916) to exclude the General Federation from the Joint Board is a step in the right direction.

has had, so far, to suffer. The Government has failed lamentably to regulate even coal prices. But the unorganized and sweated workers have nowhere to look for help, if not to the State. To some extent the State can assist them by the extension of Wages Boards to all industries where wages fall below a certain standard. We already have Trade Boards for some workers. These, however, do not fix minimum rates on the basis of the cost of living, but mainly on what the trade will bear. The new Wages Boards ought to take into consideration in their determinations the pre-War rate of real wages. Here we come up against the problem of value, and it may be that, if the principle of a living wage is adopted, some minor industries will have to go to the wall. But there is plenty of evidence in the history of industry to show that inefficient employers are just as likely to go to the wall, and all who believe in the economy of high wages and good working conditions will agree that "effectiveness in production will be in direct proportion to the degree in which it is organized with a view to the well-being of the workers."*

The power of the State in industry has been vastly increased during the War. A great question thus emerges: What is to be the future relationship of Trade Unionism to the State? If the State is to extend the principle of determination of wages by Trade Boards, will it also seek to interfere more with organized labour? Is compulsory arbitration in industrial disputes likely to become a permanent part of State interference in industry? Shall we ever get completely rid of the Munitions Act? There are some who think that after the War the bargaining power of the workers will be so

* See "Women in Industry," by Helen Bosanquet, *Economic Journal*, June, 1916, p. 217.

weak that only by accepting State arbitration through impartial persons will they be able to protect their standard of life. Arbitration is also supported by public opinion because it seems to offer a way of escape from the inconvenience which is caused by strikes on a large scale. The strike is a barbarous weapon. But in a barbarous society which contains two fundamentally antagonistic economic classes, it is inevitable that barbarous weapons should be in use. The kind of "justice" which arbitration, compulsory or otherwise, produces is a mere confirmation of the *status quo* in industry. In wages awards it seldom amounts to more than a splitting of the difference between the demands of the two parties. The really impartial person does not, and in the nature of things cannot, exist. An arbitrator must either be on the side of the workers or on that of the existing order, and so long as we have a public which is socially and economically uneducated, it is unlikely that anyone who is definitely labour in his sympathies will be considered a safe man for the work. In the quarterly report of the Stalybridge Operative Cotton Spinners' Association, June, 1916, there is a reference to the award by Sir George Askwith in the recent wages dispute, where the men asked for a 10 per cent. advance. It accurately sums up the whole matter as follows:

"We are grievously disappointed with his award of only 5 per cent. advance, but as it was agreed to leave the matter entirely in his hands, we must loyally and honourably abide by his decision. A lesson can be learned from these negotiations. You can get nothing from employers if you are not prepared to enforce it. You cannot depend upon arbitration. If ever you are to improve your position, you must rely upon yourselves and the strength of your Association."

Commenting on the same dispute, the *Manchester Guardian* says:

“ We have to acknowledge with some humiliation that we cannot now settle our own affairs in Lancashire, and though there is no question of compulsory arbitration, it seems that we shall hardly settle a wages dispute in the future without Government interference. This can only be efficacious if it conforms in the main to the forces behind the demands or to those that inform the resistance to them, and it is possible that this latest award may do something to placate employers in the cotton trade, who were getting rather restive under a belief that Government arbitration was little more than a splitting of differences.”*

In other words, arbitration, even when voluntarily accepted, is no more than a supplement to collective bargaining. It is a way of saving the waste and suffering of a strike. It is not a substitute or cure for economic war, and the workers, if they are going to preserve and increase their industrial freedom, must continue to hold the strike weapon in reserve. Even in respect of this its sole function, arbitration is inferior to the kind of conciliatory mediation which Sir George Askwith practises. An arbitration award fails, as a rule, to satisfy either party. A skilful mediator, on the other hand, will reduce friction and make negotiation easier.

There are, then, two kinds of State interference in industry which labour should seek to retain—the establishment of wages boards in unorganized trades and free conciliation in industrial disputes. On the other hand, it must realize the dangers attending the present close co-operation of employers with the Government. The relaxation of Trade Union customs, the suspension of

* June 13, 1916.

the Factory Acts, and the powers given by the Munitions Act, have accustomed employers to a measure of despotism. They will not freely surrender their present use of compulsion. Where State control is unfavourable to them, they will seek to regain their freedom. Where it is advantageous, they may use it to lower wages and impose servile conditions. This is no imaginary danger, as many engineers have found to their cost during the War. Further, the new public sentiment for the maximization of output is already being used by many employers to popularize what is known as scientific management—that is, the organized economy of labour power to accelerate output, carried on by means of autocratic workshop rules.* In its extreme form, this system means intense speeding-up, and the transformation of the worker into a semi-automaton. It seems likely that many factories will be reorganized on these principles after the War, especially where women are in the majority. To safeguard the health of employees, labour ought to demand an extension of the Factory Acts, and guarantees that any acceleration of output beyond the pre-War level should only be admissible if accompanied by abolition of overtime. In engineering, especially, it may be necessary to demand, further, that the old piecework rate be established as a minimum. The steps taken by the Government during the War to maximize production make it certain that the fight will be not only to maintain the normal rate of wages, but also to preserve the normal rate of output.

All these, however, are mere defensive precautions, preliminary to what must be the main policy of the

* See articles by Sir Richard Cooper and others in *System*, May and June, 1916.

unions—an uncompromising demand for a share in the control of industry. We come back, in fact, to the position that labour cannot securely hold any of its gains so long as Trade Unionism is a mere outside force in industry. During the War, as we have seen, Trade Unions have been given, and have had to take, part responsibility for the nation's industrial production. Things cannot stand still in any sphere of social activity, and the unions must either gain greater control or lose what recognition they have already obtained. The probable line of advance seems to be the gradual development of Joint Boards of control in the staple industries such as the railways, the mines, engineering, and cotton. It is indeed possible that within the next generation, if not the next few years, we may find the railways or the mines placed under the control of a Commission on which labour, shareholders, and consumers are represented along with the State. In the scattered industries of the country, and even in cotton, where the enterprise of the small private firm is so important a factor in production, the problem is much more complicated and cannot be entered upon here. But wherever the Trade Union concerned can procure their establishment, Joint Boards must be set up, involving recognition of the men by the organized employers, and *vice versa*. The immediate functions of such Boards after the War would be two. First, to settle the question of the restoration of Trade Union rules; second, to direct the replacement of emergency workers by returned soldiers, and to make the many adjustments that will arise in connection with employment. Instances of joint committees set up during the War and dealing with workshop discipline and the process of dilution have been given above. It would seem that along these lines Trade

Unionism may gradually advance to actual control of industry as distinct from mere workshop control. The existing organization may be used for this purpose. If, for instance, the element of arbitration is eliminated from the Conciliation Boards, these Boards, it is suggested, may ultimately become the controlling bodies in each industry. On them, employers and employed will meet, both locally and nationally, without the presence of a third party, to discuss all differences. Within the factory or workshop the workers may obtain the right to elect their own foremen and to settle disciplinary questions without the help of the employer.

The general problem of the control of industry will be discussed in a later chapter. The question of the relative merits of Collectivism, Syndicalism, and Guild Socialism is beyond our present scope. It is clear, however, that the Trade Union movement as a whole must work out considered views, not only on its proper relation to the State, but on the nature and functions of the State of the future. It is at least encouraging to find that in recent years the railwaymen, the miners, and the postal workers have all passed resolutions demanding that nationalization be accompanied by the granting of a share in control to labour. This year unskilled labour has followed the same course. At the Annual Conference of the Workers' Union the following resolution was passed:

“ That having regard to the hazardous experiments in the national direction and bureaucratic control of industry since the commencement of the War, and seeing that the Treasury conferences between the Trade Unions and the Government marked the beginning of a new era of State recognition of Trade Unionism, the Conference declares that no scheme of nationalization

can be satisfactory which does not provide for joint democratic control in the industry affected by the workers and the State."

In conclusion, we must again emphasize the necessity for obtaining solidarity throughout the whole Labour Movement. Without internal cohesion and discipline, Trade Unionism will attain none of its aims. The rank and file especially must learn, in the first place, to elect the right type of official. Secondly, they must cease to re-elect officials in whom they have lost confidence. Trade Unionists, like too many of us, are afraid to hurt the feelings of others, and to avoid doing so they will go on electing men to responsible positions long after they have ceased to believe in them. Naturally they are not prepared to follow such men. But the expert official must be given his rights. Once he has been elected, the control of strikes and other movements must be left in his hands, except in so far as the rank and file can exercise a constitutional right to interfere. Otherwise the movement will degenerate into anarchy.

The ratification of the Triple Alliance is a great step forward. But the Alliance must become an offensive body with its eye on the distant goal of industrial control. The engineers' and the other great unions must ultimately come in. Until the majority of Trade Unionists can visualize the movement as a whole, confusion will continue. Above all, organized labour must learn to "think socially," in terms of community as well as of class. The greatest need of labour as of all classes, is for an education that will enable them to understand the society in which they live. In the long-run, the labour question is an educational one. It can only be solved by a development of the social oppor-

tunity of the individual. There are many lions in the path. But given educational opportunities, the working class has more than sufficient courage to go forward boldly. In doing so, it will find that the lions are chained. With resolution and a clear ideal, it may come into its kingdom sooner than any of us dare hope.

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To obtain a good knowledge of the structure and aims of British Trade Unionism, the reader should study *Trade Unionism*, by C. M. Lloyd (Black, 3s. 6d.); *The World of Labour*, by G. D. H. Cole (Bell, 2s. 6d. and 1s.). The larger works by Mr. and Mrs. Webb—*Industrial Democracy* and *The History of Trade Unionism*—are invaluable on the historical side, but are less up to date. The last two chapters of Professor Ashley's *Economic Organization of England* (Longmans, 2s. 6d.) should also be read. For a working out of the ideas and theories current among advanced Trade Unionists, see also *National Guilds*, by A. R. Orage (Bell, 5s.), and the Pamphlets of the National Guilds League.

B.—TOPICAL.

Most of the material for this chapter has naturally been taken from daily newspapers, labour journals, and periodicals. *The Manchester Guardian* is probably the best daily paper for information on labour questions. *The Herald* and *The Labour Leader*, especially the former, contain valuable notes each week on Trade Union matters. The advanced labour standpoint is ably and forcibly expressed in *The Herald*. Another point of view is given in *The New Statesman*. *The Nation* has published excellent articles on industrial problems during the War period. *The Round Table* (quarterly) has had a series of articles, many of them excellent so far as they go, on industry during the War. The other monthly and quarterly reviews should also be consulted.

The Labour Year-Book (1916) (1s.) is a mine of information on the present position of Trade Unionism. It should be consulted along with *Labour in War-time* (Bell, 2s. 6d. and 1s.), by G. D. H. Cole, for the events affecting labour during the first year of War (1914-15). For constructive suggestions, see especially *Labour in War-time*, p. 280 ff. *The Economic Journal* for June, 1916, contains excellent topical articles by Miss B. L. Hutchins and Mrs. Bosanquet on Women in

Industry. *Women in Modern Industry*, by B. L. Hutchins (1915), should be consulted.

The journals of Trade Unions and of the employers respectively, along with the monthly and quarterly Reports of the important unions and the yearly Report of the Trade Union Congress, give some indication of the actual state of thought and feeling in the industrial world.

Great Britain after the War (Sidney Webb and Arnold Freeman: Allen and Unwin, 1s. and 6d.) contains many useful facts and figures relating to Trade Unionism.

Since the above chapter was written a series of suggestive papers on industrial problems after the War, read at a conference in Oxford, has been published by the Council of Ruskin College under the title, "The Reorganization of Industry" (pamphlet, 7d.). Criticisms by Trade Unionists and Co-operators are included, and the whole is a valuable contribution to the subject.

V

THE CONTROL OF INDUSTRY BY PRODUCERS AND CONSUMERS

I.

A GOOD deal is being said and written about the Control of Industry, but it is not always easy to know what is meant by so vague an expression. The object of the present chapter is to discover, and to state as simply as possible, what is meant by "control" as far as producers and consumers are concerned, why it is desired, and how far it is practicable.

It is sometimes said—though there are other classifications—that there are three claimants to the control of modern industry—the Consumer, the Producer, and the State. Accepting this as a convenient basis for the discussion, the first question to be examined is the scope of the control which they respectively claim.

The conduct of industry involves decisions upon a multitude of particular matters, but since industry is nothing else than the machinery for satisfying the material needs of society, they may be summed up primarily under two heads, as relating to *what* shall be produced and *how* it shall be produced. How far do the claims for control relate to the determination of *what* shall be produced?

In principle the decision of what shall be produced

is evidently at bottom a matter for the consumer rather than for the producer, inasmuch as the function of the latter is to satisfy the consumer's wants. At the same time, since the production of goods and services involves labour, organization, and the use of natural resources, some relation must be established between the nature and quantity of the consumer's requirements and the cost to the producer, whether measured in money or effort. In practice the demand of the consumer becomes effective in proportion as he is able and willing to pay for what he wants, and the maintenance of production is dependent upon a sufficient reward for the producer being forthcoming. In this way production is regulated by the terms of exchange between producer and consumer. Subject to this condition, in the existing system the individual consumer settles, at any rate superficially, what shall be produced. The aggregate production of society is made up of the privately determined demands of the individual members. Is there in this state of things any demand on the part of the consumer generally for a greater, or more organized, or collective, control of industry in respect of what shall be produced? It cannot be said that there is. The ordinary consumer has hardly ever considered the matter, and without doubt the general sentiment is one of satisfaction with the existing system, which appears to hold out the opportunity of obtaining almost anything the consumer could reasonably desire, and indeed much more. The machinery of the system, again, appears in ordinary times to be exceedingly convenient, and, given the means, the consumer can obtain what he wants how and when and where he wants it. The impression of the general satisfactoriness of the existing system is reflected in the fact that even in certain pictures of a

collectivist State, demand is left to organize itself spontaneously very much as at present through shops and customers, catalogues and advertisement.

Is the system, however, really satisfactory? Doubt is shed upon this by the interference which takes place on the part of the State. The State, as is shown elsewhere in this book,* in various ways controls what shall be produced. It steps in with a veto on the production of certain commodities, the production of which may injure the health of the producer, or which are harmful to the consumer; it limits or regulates the consumption or production of others. The grounds of this interference reveal the defects of the system. It becomes clear that a system, motivated by individual desire or choice on the one side, and by the object of making a profit on the other, produces very often in practice results which are destructive of human welfare or injurious to society. It is difficult to escape the conclusion that, as regards what shall be produced, industry must be socially controlled. The only question is as to the degree of this control. If limitations are placed on the consumption of commodities the production of which will harm the producers, and also to the consumption of commodities which are harmful to the consumer, there is no logical barrier to the control of consumption with a view to promoting the positive good of the consumers either as individuals or as members of society. In practice, however, the step is difficult. To some extent modern States have already taken it in the provision of compulsory and State-controlled education. The extension of such control to goods and services generally is not without historic precedent—for the Middle Ages had their sumptuary laws; nor is it

* Chapter IX.

without precedent in literature, for Plato's *Republic* embodies the idea. At any rate, here is food for thought. If the aim of economists were to discover, not what are the laws of political economy, but what they should be, then assuredly they would devote as much attention to the consumption of wealth as to its production.

On this side of economic life there is much that is unsatisfactory. Two aspects may be referred to. The first of these would be clearly seen if it were possible to lay side by side two tables, the one showing the goods and services actually produced, the other showing what should be produced in order to provide the essentials of a healthy and rational life for every member of society. This second table should also show such further goods and services as existing resources may afford, considered on the basis of an equal division or a distribution according to the capacity of consumers to use or enjoy them. It would then be seen how far the actual production of society departs from what it should be from the point of view of social welfare. The reason for this divergence between what is and what should be lies in the unequal distribution of wealth, by which some individuals are able to obtain superfluities while others lack necessities. Evidently so long as this is the case, industry, from the social point of view, will to a large extent be producing the wrong things.

The second aspect is less clear-cut. A great part of production consists of things which are unnecessary, trashy, or even harmful. The fact that they are produced at all displays an imperfect knowledge of the art of living. In part their production arises from the mal-distribution of wealth, which places purchasing power in the hands of people who cannot use it properly. In the main, however, it is due to a widespread ignor-

ance, "wantlessness," and either lack of, or depravity of taste among the masses of society. The theory that the consumer determines in any original or spontaneous way what shall be produced is largely false as a matter of practice. Over and above necessities, which are largely determined by custom, he is the victim of his own undeveloped psychology, of imitativeness and emulation. A traveller tells how one morning he went down to the banks of the Amazon to brush his teeth. The next morning, when he went again for the same purpose, he found the opposite bank lined with monkeys imitating his motions with pieces of stick. The tale in some sort can be paralleled from the ways of civilized society. The general lack of taste is still more depressing. The evil by no means stops with the working classes nor with cheap goods. When William Morris started to furnish his first house, he found it almost impossible to get a single article of use which was not abominable in point of taste, and though in certain respects matters have improved, they are still bad. Finally, in every modern State there are to be found wants of a morbid character, such as excessive consumption of drink, which witness to the depravity of individual taste. The cure for this state of things, no doubt, lies in education, wisely contrived, and not a little in the raising of the standard of life. The natural aversion of the Englishman, however, to State interference and to organized education in such matters is probably healthy and natural. Taste is more educated on the Continent—in Germany, for instance—but it is less genuine and individual.

The position of the producer needs to be considered in the light of these observations. In practice it is he

who makes the bulk of the decisions as to what shall be produced, and although on orthodox theory he does so in anticipation of, or in response to, the demand of the consumer, in point of fact, both by the arts of salesmanship and by invention in putting on the market new commodities, he largely creates or guides the consumer's desires. While in one way he decides too much, in another, he decides too little. The producer, as producer, has no general interest in the question of what shall be produced. He regards industry too often simply as the means to the wherewithal to satisfy his own needs. But a good deal of the monotony and ugliness of industry is due to the character of the goods produced, and the producer suffers from the lack or depravity of public taste by the narrowing of the interest of his work. In a healthy state of consumption production might be more of a joy than it is to many of those engaged in it, and it is along this line that the producer has a legitimate interest in the control of what is produced.

In respect, then, of what shall be produced, there appears to be no current claim to more control either on the part of consumers or producers, though the existence of a problem is shown by the action taken by the State, and ideally a vista of problems opens up. The next step of the analysis is to ask whether, or in what respects, Producers, Consumers, or the State claim to control *how* the goods shall be produced. The production of goods in modern industry includes a number of matters which are distinguishable in thought, though very closely connected in practice. It includes, first, the actual art or technical process of production, which may vary from intricate chemical processes or mechanical operations to the simple act of measuring out milk from

a can into a jug; this may be called, for lack of a better word, technique. It includes, secondly, the bringing together of the persons required to perform a required operation or group of operations; the division of the work among them; their equipment with the necessary tools, machinery, and buildings; arrangements for the checking and supervision of the work; and the division of responsibility and authority among them. This is organization. Finally, there are the daily decisions as to the general conduct of the work and the policy of the business, including the sale of the product. This is administration, or management in the narrower sense of the word.

Does the consumer (that is, the consumer who buys for the consumption of himself and his family) claim, or desire, to control this intricate mass of arrangements? Individual consumers may feel that machine production destroys beauty and individuality in articles of use and that commercial methods drag down public taste, while an occasional consumer may turn producer to demonstrate his theories. But with all this the answer is no. In themselves, the means by which the goods are produced are indifferent to the consumer so long as the goods are forthcoming. Indirectly he exerts a powerful influence on the organization and conduct of industry in so far as by seeking to buy as cheaply as he can he sets a premium on production at the lowest possible cost and puts in operation what economists call the "principle of substitution." This, however, is quite another matter from conscious control. Apart from considerations which will presently be discussed, there is no demand on the part of consumers to control the conduct of industry. As far as consumers are concerned, the matter is left to the producers.

A consideration of the position of producers in regard to control of the technique, organization, and management of industry, raises a new point. Hitherto the term "producers" has been used in this chapter in apposition to the term "consumers," as meaning the whole body of persons engaged in industry, whether as workers or as contributors of land or capital; which, indeed, was the only aspect in which it was necessary to think of producers. In this sense—subject to such interference by the State, as has already been mentioned, the producers actually do control the organization and conduct of industry. There is, however, a narrower sense of the word, in which it means only some of those concerned—viz., labour or organized labour. When the control of industry is claimed for producers, this is generally what is meant. The claim, therefore, is not one of producers as opposed to consumers; it is of one section of producers as against another—in fact, of the mass of producers as against the managing class. It involves a problem internal to producers. How far does the claim that labour shall control industry relate to technique, organization, and management? The present structure of industry runs sharply counter to the admission of any claim under this head. The persons engaged in industry are divided into employers, including directors and managers, and employed. As things are, the initiative and the ultimate control of the whole conduct of industry rests in the hands of the former. There is a division of functions, and a hierarchy of responsibility, from directors down to foremen, charge hands, salesmen, clerks, etc., but control is from above—the system is an autocratic system. Within the limits set to the nature or conduct of the business by law, and to some extent by the action of

organized labour, the decisions of the employing class are absolute. Why this is so can only fully be understood by tracing out the course of the development of industry in England and the causes, often accidental, which have determined its course. But the actual basis of the employer's position is clear: it is the command of capital. The capitalist employer of fifty to a hundred years ago is fast becoming an archaic figure, and this for two reasons. On the one hand, with a vaster scale of production, the forms of business organization are changing. The joint-stock limited liability company has spread throughout industry, and organizations larger than the single business, such as trusts and combinations, are being developed, following on the growth of population, and the development of markets, transport, and finance. On the other hand, the experience of four or five generations of capitalist business has shown that heredity cannot be relied upon to perpetuate business ability, and this has strengthened the tendency to a differentiation between the management and the actual ownership of capital in industry. These changes, in effect, tend to place the management of large capitals, or aggregations of capital, in the hands of men of business ability, sometimes with, sometimes without, capital of their own. But the influence of the owners of the capital is none the less the preponderant influence, and over a large part of the field of industry in one form or another it is they who ultimately appoint the ability, very commonly on a basis of sharing results. While the relation of the actual employer to the ownership of capital has changed, his position in industry has been confirmed by the success of the system. It is a misnomer to speak of an employing class, yet there is a solidarity of outlook among employers and an opposition of

attitude between them and the other industrial classes, which rest partly on their position of authority, but mainly on the fact that they are in the position of trustees for the shareholders, and their pecuniary interests are on the side of capital, being bound up with the amount of the profits.

Such being the actual structure of industry, how far is it claimed that the powers exercised by the employing class should be taken over by, or come under the control of, those employed? The scope of the claim varies from a share in the control of working conditions to taking over the whole function of the employer. The propriety of the former claim is easily seen. If industry is organized and run primarily—as it is—for the private profit of the owners of the property engaged, the interests of the mass of the persons employed may suffer. The primary object of employers being to make a profit, they may choose processes which are economical in money cost, but not in human life or comfort. They may create or maintain forms of organization which make men into mere automata or take no proper account of matters which affect personal life or well-being. To state the point as a hypothetical one is hypocritical. The appalling story of the human conditions of industry in this country from the last quarter of the eighteenth to the third quarter of the nineteenth century, and current conditions in Japan and in the U.S.A., show that the interests of the employed *will* suffer unless conditions are imposed upon the employer. Working conditions—taken in a wide sense, as including many matters of discipline and the detailed organization of work—are clearly an aspect of the conduct of business which ought not to be left to the sole discretion of employers. In certain primary matters—hours, safety, sanitation,

etc.—the State has intervened in the interest of the employed, but the demand that they or their organizations should have some direct share in the control of conditions is a natural one; it is surprising that it has not been more vocal in the past. Under this head there is a widespread claim for a certain measure of control of industry from below.

Working conditions, however, though covering more than half the worker's life, are but one aspect of business organization and management, and to admit employees to a share in controlling them does not amount to a fundamental change, though it is an important one. Is this all that is claimed for labour? No; in some quarters a much more comprehensive claim is made. The elusive idea of a form of organization in which the workers would have complete control of their lives and work has given rise in the past to numerous experiments in self-governing workshops. The same aspiration, in a different form, applicable to modern large-scale industries, emerges to-day in the proposals of syndicalists and Guild Socialists. The essence of both is to change control of industry "from above" into control "from below." Under the Guild Socialist plan, the workers in each industry—of all grades—are organized as a collective body, or guild, which has full control over the industry, as over each business that forms part of it. The working structure of the industry will be hierarchical, somewhat on the lines, presumably, of a giant trust, but all persons in authority, including what at present would be "the management" *par excellence*, are elected by the workers as a whole. In this way, in each industry the ultimate control rests with the mass of the workers, who in the last resort control technique, organization, and administration, on the

model of a political democracy. These proposals may be regarded by some as an ideal, by others as a programme; but their importance is not in their details, it lies much deeper. "The unrest in the industrial world to-day has not its roots solely in poverty and want. There is something deeper still at work. The wage-earners are filled with a vague but profound sentiment that the industrial system, as it is now, denies to them the liberties, opportunities, and responsibilities of free men."* The justice of this sentiment is difficult to deny. While the life of the employer, like that of most men engaged in professions, is a free life, that of the minor workers in industry is often not too harshly described as "wage slavery." It is, however, worth considering whether, on the scale which this unrest assumes, the problem does not extend beyond merely industrial issues, and whether the criticism which is levelled against the industrial system is not of a piece with a criticism of the social system as a whole. Behind the question of the redistribution of authority and control in industry lies the issue of a redistribution of its fruits, and beyond this a transformation of the present class structure of society, which rests on economic inequality.

In regard to how industry shall be carried on, as in regard to what things shall be produced, the State appears to stand aside from any direct assumption of control. The organization and conduct of industry is left to private enterprise and private capital, while the State interferes only to set limits to the incidental evils which may arise. The extent of such interference is, in fact, large. As regards technique, the statute-book is full of legislation designed to regulate processes and

* *The Round Table*, June, 1916, p. 2168.

methods detrimental to life or health. As regards organization, it imposes regulations as to the hours of employment, the ages, and in certain occupations the sex, of those employed; it regulates working conditions; and, finally, it imposes privileges, rights, and duties upon certain forms of business organization such as Joint-Stock Companies. The extent of this interference vividly illustrates the defects of industry organized for private profit; but it is a far cry from protective legislation to a recognition of a fundamental unsoundness in a system so organized. Towards such a recognition the tendency of recent events is driving. Labour unrest will compel the State more and more to intervene in questions affecting, not merely conditions in industry, but its government. The opposition between the demand for democratic control of large-scale industry on the one hand and the interests of the present employing class and the owners of industrial capital on the other, and the adjustment of the position of the consumer in a reformed system, will not be solved without some considerable changes in the relation of the State to the conduct of industry.

Resuming the thread of the analysis, it appears that as regards the matters summed up under the heading of *how* the goods are to be produced, control is not claimed by consumers. The producers, in fact, exercise the control, and the only question at issue—a very important one—is the division of control amongst producers themselves. In its widest form this challenges the basis of the present structure of industry. It may be described as a sort of constitutional problem of capitalist industry. It is a problem that does not arise in certain branches of industry—among lawyers, for instance, or doctors or artists; and it would require a

very different statement in application to domestic servants, municipal employees, soldiers or sailors.

The net result, then, of an examination of the claims of the Consumer, the Producer, and the State to the control of industry in respect of *what* shall be produced and of *how* it shall be produced, appears to be mainly a single problem, though certain lines of inquiry suggested themselves as to the relation of the State to production and consumption. But do those two headings exhaust the question? No, a further category remains: the money terms upon which the things shall be produced. This problem does not fall strictly under *What* or *How*, but it is involved in both, and to discuss these in the abstract without reference to prices, profits, or wages involves a certain unreality.

The question of *terms* is the most familiar aspect of the present system of industry, for that system is permeated by the principle of exchange. With personal freedom, private property, and division of labour, and a money economy, it has come about that, in economic life, the one universal type of relation is that of buyer and seller. This is the form taken by the relation of consumer and producer; it is also the predominant form of the relation among the parties in production, for wages, profits, interest, and rent are all prices. Prices are the expression of exchange value. Thus, in a sense, every aspect of industry hinges upon considerations of exchange value, which settle in detail both what shall be produced, and how it shall be produced.

The terms in which the consumer is interested in spending his income are the prices of the finished article. His interest in buying cheaply needs no demonstration and no explanation. For, what he can buy with the money income, which he obtains as a worker or

property-owner, represents his "real" income of necessities, comforts, and luxuries. Is there on the side of the consumer any problem in connection with the control of prices? Leaving aside the question of the "rise" of prices, which is partly a currency problem, is the consumer interested in any form of control of prices? In ordinary times the answer, broadly, would be, No. The reason is that there are two main ways of settling prices—State regulation and the "higgling of the market." Until recent times, State regulation of prices, as a normal thing, has been widely believed to be an impossibility, and there is little to show that this opinion is wrong. At least, it is easy to see that it involves a complete change of attitude on the part of the State towards industry, since it would involve fixing wages and profits also. On the other hand, economic theory seemed to prove that, while State regulation of prices was impracticable, there was no case for regulation, given conditions of free competition. There is no doubt a certain element of illusion about this theory, but no article of faith has passed more firmly into popular belief. Provided "free competition" prevailed in the whole series of exchanges leading up to and including the ultimate exchange in which he is himself a party, it appeared that the consumer would buy at the cheapest possible rate, and production would be carried on on the cheapest possible basis. One qualification of this view has been constantly urged by collectivists: the overlapping and waste which is said to arise in industry precisely as a result of competition. The costs of advertisement and other methods of pushing sales, and of the duplication of personnel and establishments, it is said, are paid for in the long-run by the consumer. The modern tendency to amalgamation and combination of businesses and the

formation of trusts is often held to bear out this criticism. Apart from this, a practical recognition of the possibility of an improvement upon existing methods is found in the co-operative movement, which rests in part upon the possibility of eliminating certain intermediary profits—of, so to speak, short-circuiting the series between manufacturers and the ultimate consumers by eliminating middlemen. The co-operative movement not only eliminates certain middlemen's profits, but also certain manufacturing profits, inasmuch as it has, in certain instances, undertaken its own manufacturing. Regarded as a reform of the existing system, there appear, however, to be definite limits to its application, chiefly arising out of the fact that experience shows that co-operators can only successfully handle certain classes of goods. It does not offer an alternative to the existing system of production and sale. The problem of price, so far as it exists—and it is coming into existence rapidly—is not, rightly or wrongly, due to a breakdown in the public belief in the theory of free competition, but to the possibility of extensive modifications of free competition among producers, by the growth of monopolistic methods of price control. Already in recent times before the War scares have taken place over soap, tobacco, and meat trusts. The public is somewhat unaware of the extent to which in the great staple industries of the country competition appears already to have been modified, either by agreement as to prices, or by actual amalgamation of businesses. It is possible that under a National Trade policy, the near future may see an extension of this process. The trust may become more and more the typical form of business, and combines and amalgamations supersede the old-fashioned trade rivalry over a large part of the field of industry. These

new forms of organization present two advantages to the producer ; one is economy of working, which lowers cost, the other is the possibility of exploiting the public by charging higher prices. Few monopolists have been able to resist the enjoyment of both. Faced by monopoly, experience shows the position of the consumer to be singularly weak. Where the organization of the monopoly is sound, and it can crush or buy off any attempt at competition, it appears that the consumer, as such, can in practice do nothing ; the monopolist will exploit the public as far as he thinks it prudent, although, if a staple commodity be in question, his action may cause intolerable hardship to consumers. Herein lies the germ of a movement on the part of consumers for a control of prices. The obvious resource of the consumer so far has been to invoke the aid of the State, which, if it cannot destroy the monopoly, will aim at controlling prices. The political success of the consumer, however, has not been great, though the evil is, comparatively speaking, in its infancy. With the extension of the trust form from one staple industry to another, the growth of monopoly in the supply of raw materials, and the development of huge distributive businesses, the position may become both very serious and very difficult to handle. Though monopolies in practice are organized internally on similar lines to competitive businesses, there is, in the circumstances, no reason why the monopolist should not pass on a part of his gains to labour, if thereby he could create vested interests in his own maintenance. Where the trust or combination covered a whole industry, it is conceivable that the monopolist might " square " the whole industry by collective bargain. Monopoly spreading from one industry to another, and operated for private gain, is not

a beneficent vision, and it is impossible to say how in its complete development such a state of things would work out either for labour or for the consumers. But before any such point were reached it is conceivable that, in the absence of effectual means of controlling the monopolist, the State might be driven to nationalize the great staple industries in the interests of the consumers. Nationalization with such a motive would probably take the line of buying out the monopolist—upon liberal terms—and the result might conceivably be State capitalism in the interest of consumers, with the object simply of maintaining the benefits of the competitive system!

The producer's interest in prices is the opposite of that of the consumer. At least, it is so under free competition. Under monopoly the monopolist theoretically would aim, if he were wise, at the largest total profit, which might in some cases involve selling a larger quantity at a low price, in preference to a smaller quantity at a high price. As already mentioned, the tradition of competition among producers appears to be giving way in favour of combination and monopoly. The final effects of this tendency upon prices, profits, and wages respectively, are difficult to foresee. The producer as such is a buyer as well as a seller, and the greater part of the goods actually bought and sold in the market are raw materials and partly finished goods. If industry becomes a mass of monopolies, a new science of economics will be required to explain its laws.

So much for the aspect of terms which centres in prices. Apart from this question, however, there is in regard to terms as in regard to organization and management, an internal problem among producers. Industry represents, from one point of view, a co-operation

between owners of property and persons who supply labour and managing ability. The employer (or the management) is the intermediary between all the parties. The co-operation takes place on terms worked out in a series of bargains over wages, salaries, and profits, which, in effect, represent a sharing between the parties of the proceeds of the joint operations. The negotiator of these bargains, and therefore the medium of the division of the product between labour and the other parties, is the employer. Now, whatever the profitableness, or the reverse, of the business, the employer pays out labour—as one of the parties—broadly, at competitive or market rates. This statement, however, hardly brings out the peculiarity of the situation. To a very large extent, the worker in industry is regarded, not as a co-operator in the business, but as the seller of a commodity—labour—which is regarded by the employer much in the same light as any other commodity necessary for production—power, or the use of machinery or land, or raw materials. But what is too often the price of a commodity to employers is in every case livelihood to the worker. Herein is the point at which labour is concerned in controlling the process. To those who are dependent on labour for their livelihood, the wages bargain is an issue which is fundamental to their whole lives. Two questions emerge: one is the treatment of labour as a commodity, which is near the root of the demand for a share for labour in the management which has already been discussed; the other is the comparative size of the worker's share in the fruits of industry. Now, the disparity of income in the industrial system, between the masses of the employed, and the management and the owners of property, is glaring and universal; the relative disproportion of income and

human cost, in fatigue, drudgery, monotony, and dirt, is equally universal and glaring; and, in spite of economic theory which "explains" how these things happen, it often seems a monstrous injustice that the system awards the masses a bare subsistence, and a few men luxury. This is to a large extent the essence of the division of interest between labour and employers and is the origin of the class struggle. Now, on one view, it must seem that it is the weakness and lack of position of the individual worker which is responsible for this result; that somehow, were he a stronger bargainer, he could obtain a more equal share. The bargain of the employer in selling his goods, which in many cases appears so lucrative, compels attention to the bargains of the same employer with the worker, which do not appear to correspond. The higgling of the market, which gives the one result, appears capable of being used to better advantage in the other. This is not the theory of collective bargaining, but it is the instinct at the bottom of it.

Now, how far can the attempt to improve the wages bargain hope to succeed? The orthodox answer is the argument from natural, or, properly speaking, economic law. The economist will show the psychological basis of the law of value, tricked out in phrases of margins and marginal utilities, and illustrated by geometrical diagrams. He will show that, in the remuneration of land and capital, determined at the margin, there is nothing arbitrary, but that, on the contrary, it is the inevitable result of the forces at work. He will prove that labour, similarly, is remunerated with mechanical precision according to its marginal efficiency. He will show the distribution of the fruits of industry as the result of equilibrating margins of the factors of produc-

tion, conditioned by demand in the market. Every factor, he will say, including labour, is paid according to its efficiency, and receives with accuracy the value of its contribution—*i.e.*, of what it produces. Now, on this theory there is little room for action on the part of labour. In practice the method adopted for the improvement of terms has been collective bargaining by Trade Unions. According to economists, however, the efforts of Trade Unions in collective bargaining on the accepted lines can make no essential difference to the final result; their success is, and must be, confined to eliminating defects in the working of competitive process which are summed up under the word “friction”—in particular, the personal weakness of the labourer as a bargainer and his lack of financial reserves. Everybody knows, however, how many qualifications economic theory requires as a picture of reality: chance and force, and ignorance and subtlety, determine a far larger proportion of the bargains of the economic world than economists recognize; and for this reason, while experience may seem to show that the economist is right, it is as hard for those concerned to believe that negotiations backed by resolute control of labour-supply can in practice achieve nothing, as it is to recognize in the abstract modern theory of the distribution of wealth the features of the actual world. The basis of the theory, moreover, is free competition; and if industry is likely to take on, more and more, the organization of monopoly to that extent the validity of the economic theory of wages disappears.

The question of industrial remuneration, however, like that of conditions and management, has a more fundamental aspect. There is a desire for a perfection and extension of collective bargaining, which aims at

improving the wages bargain in various ways, but side by side with this there is also a body of thought which aims at a supersession of the wages system.

Is there any claim on the part of the State to share, for its own purposes, in the control of prices and wages? The answer of the orthodox economist of a generation ago would have been that, on the contrary, it is the duty of the State to refrain from interference. One duty the State had—to maintain the conditions of free competition by preserving freedom and inviolability of contract, and security of property and person. Apart from this, it should leave terms to be settled between the parties. It has been found, however, that this negative function involves a growing amount of positive action on the part of the State. In the bargain between producer and consumer the State has found it desirable to protect the consumer against fraud; hence a regulation of weights, measures, and quality, which yearly grows more extensive. In the bargain of employer and employed, Truck Acts, Factory Acts, regulation of hours, regulation of the employment of women and young persons, Trade Board Acts, and others, which affect the conditions of industrial remuneration, increase upon society. The theory of non-interference was based upon a view of the efficacy of free competition in promoting the maximum advantage of all. In theory, the various forms of intervention which have been referred to are still justifiable if, in fact, they prevent advantage being taken of unsuspected weaknesses of some of the parties in industry, and thus go no further than maintaining a level basis of competition. Such an explanation, however, of the existing system at the point it has lately reached, is somewhat artificial. In intervening—as it does—to control monopoly, or to settle disputes

between labour and capital, the State may in theory, indeed, step in as a neutral, but in fact it is going beyond the mere maintenance of free competition; implicitly it asserts, first, that industry is a matter of common and public interest—a position which may lead it to any length; and, secondly, that there is some test or standard to which the bargains of the industrial system should conform—a position which, in the existing dissatisfaction of labour with the distribution of wealth, raises more than sectional issues. If, in future development along this line, the State came fairly to abandon the position that its duty was merely to ensure fair play between parties, for the view that it was competent to set a common standard of fairness, it would be found that, at that point, the question of terms had, in essence, passed out of the hands both of producers and consumers. To put it another way, the State would have undertaken to determine the distribution of the national income.

II.

How are the net results of the preceding pages to be summed up?

Consumers as a class might conceivably criticize industry from the point of view of whether it supplies their wants efficiently or inefficiently. As a matter of fact, they are dumb on the subject: they feel on the matter as individuals, and not collectively. The consumer's interest in industry (apart from a conscience that troubles him at times) is only in buying cheaply, and as and when he wants. The problems for him arise out of monopoly and the possibility of monopoly, and, to a lesser degree, out of disturbances of supply due to sectional friction among producers. He loathes both

the Beef Trust and the Coal Strike. The possibility of interesting him in a scheme for buying cheaply has been shown by the success of the co-operative movement, but the possible extension of co-operation of consumers is limited, and this form of organization does not afford a way of counteracting monopoly in the great staple industries and in the supplies of raw materials. If the tendency to monopoly increases, and brings with it any extensive manipulation of prices, the consumer's resource will be the State, and primarily State restriction or State regulation, only secondarily State management.

The producer, collectively, has an interest in selling dear, which is the other side of the problem; and the establishment of an understanding between employers and employed, which would create collective monopoly interests in particular industries against consumers, is not beyond the bounds of possibility.

The other problems in connection with the control of industry are internal to the producers. They are of two ascending degrees: (1) the desire of the working classes for a more effective control of wages and conditions: this is the conservative claim; (2) a demand to control the management, or the appointment of the management, and thereby to control the general decisions on organization and technique, and, indeed, the decision of what shall be produced, the terms of sale, and the division of the earnings: this is the revolutionary demand.

The settling of these problems, and the possible lines of solution, cannot well be understood without a consideration of the position of the State. The principle underlying the present attitude of the State is that it is outside the industrial system. Therefore, it leaves

industry to be carried on by individuals and with private property, resting in the belief that all things will be ordered by economic laws, or by the "invisible hand" that is manifest in them. In practice, however, this principle has already been weakened, though no opposite theory has gained general acceptance.

III.

It remains to consider these various issues and how far they are capable of reconciliation. After all, Consumers, Producers, and the State are abstract terms, three aspects of a single community, and the same folk unite in themselves these various capacities.

Consumer and Producer in particular are economic abstractions. In the point in which the interest of producers and consumers meet—that is, the price of the finished article—these appear at first sight wholly divergent. The key to the reconciliation of the two lies in the fact that nearly every producer is also a consumer. The amount of the income which the consumer spends depends on the price obtained for the product which, as producer, he helps to make. But the real value to him of the income consists, not in the amount of the money, but in what can be bought with it; and while his own success, as producer, in raising prices tends to increase his real income *pro tanto*, the success of other producers in raising prices *pro tanto* reduces it, in so far as, in the capacity of consumer, he needs their goods. Prices and income, therefore, must be considered together, for what is really at stake is the exchangeable value of money income in terms of goods. Similar considerations apply to the bargains between the different sections of producers. The sale of the goods produced,

in effect, transfers to the producers concerned a share in the general produce of industry. The division of the money proceeds among them in wages, profits, etc., represents the division of this share and, apart from considerations of relative justice among the parties, what really matters is, not so much the pecuniary amount, say, of wages, but its purchasing power. Taking the field of industry as a whole, wages, profits, interest, rent—all the forms of industrial income—are mutually dependent elements. Together, they represent the total money value of the annual product of industry; translate them, by means of prices, from money values into the goods and services which they are the means of purchasing, and it will be seen that they represent the sharing of the product of industry among the parties concerned. From this point of view, the special opposition of producer and consumer disappears. What is left is the problem of the distribution of wealth. It has been one of the aims of economists to discover whether actual prices, wages, profits, etc., were the result of accident or caprice, or whether there was any principle, or law, at work in the industrial system which determined them upon a regular and impartial basis. Such a law was found in demand and supply, acting under conditions of free competition. By its operation, prices, profits, and wages, and the rest, tended, anyhow in the long-run, to "natural" rates. Buyers, sellers, owners of property, employers and employed, all striving to maximize their respective gains, received, in fact, nothing that was arbitrary or accidental, but simply what was due to them by economic law. The peculiar virtue which was discovered in the system was that it was automatic and self-acting, and was best left without interference.

On this theory, the opposition of buyer and seller is healthy and natural, and the buyer has no cause to complain of a competitive price. Monopoly in any part of the system, however, throws out the machinery; universal monopoly would presumably suspend it altogether. It is hard to say what the net effect on the distribution of the national income would be if a general establishment of monopolies brought with it a readjustment of terms among producers—viz., wages and profits. The outcry of the consumer against monopoly, however, arises from the fact that it comes, in practice, only in particular fields of industry at one time, and for that reason brings no general readjustment of incomes. As the system provides no automatic remedy for monopoly, the consumer is bound to look for some equitable readjustment from outside. The appeal to political action is an appeal to the common conscience as to what is right and tolerable. It is based on a sense that individual forces, seeking private gain, have broken away from a system which automatically kept them within limits.

A consideration of the questions at issue between producers, so far as they relate to the wages bargain, shows a movement based upon a somewhat different point of view. Assuming that rates of wages represent the natural working out of competitive conditions, it is not too much to say that labour, so far as it has reflected on the position, is not satisfied with them. The proposal for a general minimum wage touches one weakness in the competitive system from a human point of view—it does not necessarily award the individual a living wage as the price of the work he is employed to do. Labour, in competitive industry, is a commodity; and its value is determined, like that of other com-

modities, by merely quantitative relations, without regard to the fact that the labourer is a person. The general objection of labour to the division of the product between capital and labour, however, involves rather a criticism of the present institution of property than of the competitive process as such.

The appeal to political action by the consumer against monopoly and by the wage-earner for interference with the competitive system in the wages bargain is, in the one case, a protest against arbitrary alteration in the real value of the individual shares in the product of industry; in the other, a protest against the harshness with which, in certain instances, those shares are determined.

At the same time, in so far as monopolistic forms of organization are motivated by the prospect of more economical production, they are witness to defects in the competitive system from the point of view of the community.

Another aspect of the labour problem, the question of working conditions, equally brings to light the defectiveness, from a human point of view, of the competitive system. The provision of proper working conditions is a pecuniary question. The old idea was that the good employer could not, under competition, afford to provide good working conditions, because it involved a working cost which careless or selfish employers in competition with him would not incur. And though individual employers ever since the days of Robert Owen have shown that it may "pay" to improve working conditions, there is still no rivalry among employers to do so. Hence the appeal which in the past has been made to the State.

Two conclusions thus emerge: first, that—whether

competitive or non-competitive—industry cannot be trusted to run by itself; secondly, that intervention in the industrial process must sooner or later be based on some coherent general principle, which will take account of the relation to human well-being both of the conduct of industry and the distribution of its fruits. Short of this, no satisfactory solution of industrial problems is possible.

Along this line of thought the solution of the various claims for the control of industry appears to lie in the agency of the State. Guild Socialism is sometimes presented as if it offered an alternative to State control, but inasmuch as nationalization of the instruments of production is a preliminary condition of its establishment, it necessitates in reality State action of an extensive character. Further, while it goes far to satisfy the demand of the workers for a good life in their work, it creates a problem of its own in organizing producers in groups which are, *ex hypothesi*, monopolies. The solution of this problem, whatever the precise terms in which it is set, ultimately brings in the State as the mediator.

That the problem of the control of industry should involve the State appears reasonable as soon as it is admitted that regulation of industry is necessary in the interest of social well-being, and in order to secure justice between those concerned. The State is the unity in which producer and consumer, and all the parties in production, meet; it is in their capacity as citizens that it is easiest for them to recognize that any ends exist other than personal desires or personal profit; and, finally, principles of fairness only become such in reality when they are established in common consent. The rationale, therefore, of "political action" in the narrow

sense is that, in spite of its delays and disappointments, its successes are the measure of common consent in the direction of reform; and, secondly, that legislation is the only method of regulating social activities in a general fashion, and the coercive power of the State the only way to enforce general regulation.

If this view be correct, the rate at which the problems discussed in this Essay will be solved will depend primarily on the extent to which the view of industry as a public function can be made to prevail over the view that industry is no concern of the State or, at least, that the concern of the State rises no higher than to mitigate its incidental evils. To make this view prevail is an urgent duty. The obstacles are not slight. Against a rapid transformation of public opinion in this sense are the weight of custom, tradition and vested interests, and also the fact that social classes are built on economic inequality.

On a conservative estimate of progress, however, it is clear that a good deal of change lies ahead. In the opposition between consumer and producer, if this is heightened by monopolistic developments of business organization, the State will intervene. What forms its action will assume, it is difficult to say, for there is no easy solution of the problem. Methods of maintaining competitive conditions, price-regulation and control of profits, municipal trading and State monopoly, all are in their infancy, and there is a possibility that, after all, the problem may prove insoluble along these lines.

The current issues between employers and employed may find a measure of solution within the *status quo*. So far as a share in the control of conditions is concerned, the way to a good deal of progress lies open. In certain important respects it has long been realized that the

conditions of work in factories, which mould the whole lives of those engaged, should not arbitrarily be determined by the employer for his own immediate profit, and legislation has enforced these views. It is now beginning to be realized, first, that the whole field has not been covered; and, secondly, that State regulation does not satisfy all the elements of the matter, but that employees and their organizations should have a voice. Some concession to this view has already been made, and it is probable that, whether by voluntary agreement, or as the result of legislation, it will go much further, in spite of the extreme opposition of some employers to the invasion of their "rights" of management. In respect of wages, the outlook is less hopeful. In the *status quo* the machinery for influencing wages is action by the unions, qualified by the growing system of conciliation and arbitration, voluntary or compulsory. Enough experience has accumulated to show what this machinery can do—it has shown that it cannot materially alter the distribution of the national income. In so far as the desire for such an alteration is the real issue, there is little reason to suppose that collective bargaining can meet with more success in the future than in the past. On the other hand, with improved conditions and a national increase of production per head, "real" wages may increase. Further, the way seems open for legislation which will establish some form of general minimum wage, to the necessity of which public opinion has already almost risen. But if these are to be the only substantial improvements on the present wages position, they will fall short of the demands of labour in general. There is, however, one other method by which a measure of redistribution of the national income in favour of labour is possible—viz., by an

increase in the provision of general benefits by the State out of the proceeds of taxation. Experience shows that any extensions of this principle will meet with the opposition of powerful classes and interests, who will invoke orthodox political economy and morality in their support, and so far as there can be found a majority of the proletariat who, given an appropriate political setting, will sympathize with the victims of increment duty, super-tax, and death duties, they will prevail. But, on the whole, public opinion is becoming increasingly ripe for this kind of policy.

In these various ways, a good deal of change is possible along established lines, and without drastic or novel changes in the existing economic system. Such a programme, however, does not rise to a view of industry as a public function, and of the distribution of wealth and the conditions of labour as primarily matters for the State; and thus it leaves untouched the revolutionary core of the demand of labour for the control of industry. There is the question of management: As to how far, or how widely, the working man himself puts forward the claim to control management, opinions will differ. But it is clear that, in any real shape, it is revolutionary—in the sense of implying a radical change in the *status quo*: it will not be conceded while the capital engaged in industry consists of private property and while industry is organized in the form of private businesses. Again, as regards wages: there will be no revolution in wages while the shares of property, whether land or capital, have to be provided out of the product of industry and the division is determined by free bargain. This demand, also, cannot be met without a fundamental change in the position of the property engaged in industry. Lastly, with regard to a possible future of

monopoly. the difficulty of coping with it lies in the fact that this problem has a close connection with the others. It will only be fully solved with the disappearance of the system under which industry is run for private profit, and in which the higgling of the market determines the distribution of income. In its more revolutionary aspect, therefore, the question of the control of industry raises fundamental issues with regard to the position of property. These in part are discussed in Chapter II. In part, they raise questions of the education of corporate conscience and will, and of the invention and improvement of administrative methods. Such changes as those outlined are not to be wrought without destroying the existing State, unless by greatly changing public opinion and will; that is why they are still in the kingdom of dreams. The task of the industrial reformer is to translate them into practical possibilities. The position and prospects of the State in the economic sphere are discussed in Chapter IX.

What is the bearing of the War on these problems? It is too early to say, but two things are evident: first, that the War has changed the whole setting of the problem; and, secondly, that, by laying bare some of the fundamental characters of our industrial system, it has shed light on the possibilities of change. Under the first head, a good deal has already been said in this book. We need only here refer, on the one hand, to the certainty that the State, in future, will play a more direct part in promoting the efficiency of industry and furthering its prospects in all markets—a policy which may include much direct action in education, and in the technical and financial conditions of industry, not merely the manipulation of tariffs; and, on the other hand, to the definite break which is equally certain with

the traditions of individualism and *laissez-faire* which have lingered into the twentieth century—a break which should eventually open the way to a more positive type of labour politics than has hitherto been possible in this country.

The War also will leave behind a certain experience of Government dealings with labour and of control of wages and profits, which, though limited in scope, may yet be very useful as a basis for future intervention. It will also, in emergency legislation and improvised nationalizations, leave behind it certain administrative devices which may be of future use. The chief of these, probably, is the device of “controlled establishments,” an administrative form by which the State, while leaving private management untouched and commercial motives in full operation, nevertheless acquires information of the working of the business, and regulates by statute or statutory rules the particular matters that interest it.

At the same time, some of the experiences of the War suggest a conservative view of the possibilities of rapid change of a fundamental character. One aspect is worth elaborating here: the extent to which the *status quo* is embedded in human psychology. Two things have illustrated this: the manner in which the economic structure of society endured the first shock of war, and the resistance which, in certain respects, it has shown to adaptation along new lines. Before the War there were not wanting competent observers who believed that the industrial system would be completely disrupted by the shock of a European war, primarily through the breakdown of the system of currency and credit. The reason assigned was the complication of the system and its dependence upon very sensitive and delicate adjustments. But, in fact, the capacity to carry on which the

industrial system has shown in every country in Europe, is due precisely to its extraordinary complexity and its size. It depends for its continuance on the habits of a multitude of persons, all contributing a part of the process and operations which make up the whole, but not necessarily understanding the whole—people whose lives and function consist simply in that part, about which cling the habits of their working lives, and their means and prospects in the world. In these circumstances, “business as usual” is the natural reaction of the human mind to the shock; the only resource, even after waves of invasion and outrage have burst over them and left them stranded behind it. Hence the extraordinary resilience of the industrial system. It has become, in certain profound respects, automatic.

If the War revealed the strength and resilience of the mechanism of economic life, based on the habits of the component individuals, it has revealed the defects of its quality with startling clearness, in the shape of its semi-automatic resistance to any deflection of the habitual modes of thought and action. It is not so much the substitution of war demands for peace demands which is here referred to. In that matter the country laboured under inevitable difficulties. It was only gradually that the nature and dimensions of the requirements were realized, and, moreover, for the production of new kinds of things, and for increase of production, fixed capital and equipment is required, which, in some instances, can only slowly be brought into existence. In point of fact the success along this line has been very great. It is to more intimate aspects of the problem that the present criticism refers—to a certain incapacity which industrial society has shown to throw up new forms of organization or to adopt new motives. The

momentum and persistence of ordinary habits and ways of thought may be illustrated by three matters which, to a greater or less extent, are common knowledge. First, the comparative failure of the campaign for war economy, showing the persistence of consumers' habits. Secondly, the difficulty which has attended the so-called "dilution of labour" and the relaxation amongst munition workers of rules and practices restrictive of output. Thirdly, the high degree of persistence, in the middle of a European war, of profit-seeking motives amongst private employers. While no verdict is here passed on any of these matters, they illustrate a fact of considerable importance in the present discussion: that people live, and must live, as to nine-tenths of their lives, by instinct, tradition, and slowly grown habits. They accept, and must accept, without question, the main mass of the ideas, institutions, and methods of economic, political, and social life, handed down from the past; otherwise life in modern society would be impossible. It is so gigantic and complex a co-operation that to a large extent it necessarily escapes conscious contrivance, and rather conforms, than is conformed to, the ideas of a particular generation. This consideration must be borne in mind by the reformer. It is not an argument for despair of change or even of radical change, but it shows that human nature itself prevents reconstruction at short notice on first principles.

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VI

RURAL PROBLEMS

INTRODUCTION.

IT is not often remembered that the rural problem as we know it arose in the early "eighties" of the last century. There had been rural problems before, particularly during the period previous to, during, and after the Napoleonic wars. From 1780 to 1830 the main structure of the organization of agriculture as it now stands was erected. Enclosure was rampant, the small cottar-cultivators and the small peasant proprietors mostly disappeared, farms were engrossed, and the three tiers of the agricultural community—the property-less labourer, the tenant farmer, and the landowner—were almost completely separated and defined. It is essential to the study of the existing rural problem to recognize that the primary cause of these changes was an insistent demand for greater and more economical production. The population was growing, industry was developing, and there was great scope for productive capacity both for men and capital goods. Moreover, Britain was at war during the chief part of the period. It was necessary that men, capital, and land should be used to the greatest advantage of the State. Great economic and social forces pressed the movement forward while practically no human or political effort was made to control them. Some people who saw personal

advantages in the movements became tools of the forces ; but, after all, the movements were not primarily due to human cupidity on one hand, nor foresight on the other. Some few men like Arthur Young, who began their work in agriculture as servants of the forces, afterwards tried to control them by trying to preserve the rights or privileges of the poor while enclosures were being carried on. But, on the whole, the element of control was absent—a condition which was due partly to the existing political conditions, and partly to the prevalent adoption of the *laissez-faire* theory of the time.

The great consideration was that the new movement in the organization of the farming industry brought about heavier and less costly production. Land was brought under cultivation which had previously lain waste. Cultivated land bore heavier crops, and the production of the great staples of agriculture—cereals, meat, and wool—increased by leaps and bounds. It was on the side of distribution of the profits of production that the new system failed to justify itself, and on this ground most of the criticisms were founded.

The same movement towards enlarging farms and improving production progressed slowly up to about 1870, but the improvement in the lot of the labourer was insignificant beside the improvement in production. In industry the great changes in production went farther and faster than in agriculture. The great joint-stock company generally superseded the family unit of capital. Personal ties between employers and employed were to a great extent broken. Workmen were thrown together in large numbers in fairly well defined localities. Hence, as they lost their economic and social independence when they lost their control of productive capital,

they found a new basis for protection and self-realization in various types of mutual associations. In agriculture the family unit of capital remained, together with the system of control by one general manager of a comparatively small unit of production. Labourers worked in small groups and had few points of contact with each other and with the outside world. In many areas the supply of labour was greater than the demand, and remuneration was consequently small.

But about 1867, when the farming industry was becoming most prosperous, the labourers began to show signs of attempting to determine the conditions of their lives. In 1871 they began to do this along industrial lines, and in 1872 the National Agricultural Labourers' Union was organized. This movement was a spontaneous effort on the part of the labourers themselves, although organizers and idealists of every kind soon sought to assist it or to gain its assistance. The primary object of the movement was to control the conditions of labour, especially of wages and hours. There were great initial difficulties: the majority of the labourers were uneducated, and mostly untrained in the organization and spirit of mutual associations; and, worst of all, their incomes were not sufficient to provide a surplus for the payment of the necessary fees. Nevertheless, the union scored initial successes, and wages were increased. Even when they fell again in the late "seventies" and early "eighties," they did not go back to the old level, and in many districts the hours of labour diminished as wages fell.

The ultimate disappearance of the unions was not due to their inherent weaknesses, which continued to be numerous; but to the great shock suffered by the whole industry through the wet seasons and the influx

of cheap foreign produce in the late "seventies." The union organization in industry was not established in one decade, although the workers had greater facilities for education and for mutual association. Nor could any of the young industrial unions have existed if the industry with which they were connected had lost nearly one-third of its capital, as did agriculture, within the space of a few years. Their development was made possible by the practically continued expansion of industry and the increase of capital employed.

Thus, when the agricultural industry both lost its capital and was subjected to severe competition, the directors began a system of retrenchment under which less labour was required, and the union was practically powerless, except for its action in regard to the migration and emigration of labour. It was at this time that the political aims of the union developed; and the agitation for allotments, small holdings, and the franchise, came to the front, as the general conditions of the industry made industrial action impracticable. Ever since that period the amelioration of the lot of the farm-labourer has been a prominent subject in general politics. First allotments, then parish councils, and more recently small holdings, have been the subjects of legislation; but the position of the great mass of labourers remains essentially as it was. Wages and the general conditions of labour and life have all improved, but the position of the farm-labourers has been generally regarded as unsatisfactory since they forced the consideration of their influence in the industry and in politics.

Since the "seventies" great changes have been made in production. The area under wheat in England and Wales fell from 3,463,000 acres in 1872 to

1,702,000 in 1913: that of barley fell from 2,064,000 to 1,559,000 acres. The total amount of land under arable cultivation has steadily declined since the early "seventies"; and since 1891 there has been a considerable decline in the area of "cultivated land," including both grass and arable. The number of sheep and pigs also declined with the area under arable. The most important increases have occurred in milch and other cattle, and the area under potatoes, vegetables, and fruits. The acreage of potatoes increased from 387,000 in 1872 to 442,000 in 1913, while the acreage under small fruit has more than doubled since 1882. Not only has the number of milch cattle increased, but the average yield per cow has also risen, and, with certain variations, values have shown a continuous increase. Also, the average yield of small fruit has increased with the area. But the total increases in both quantity and quality are not nearly sufficient to compensate for the decreases in production of cereals, mutton, and bacon.*

* GAIN AND LOSS IN TOTAL PRODUCTION THROUGH DIMINUTION
OF ARABLE AREA.

(000's omitted.)

<i>Loss.</i>				<i>Gain.</i>			
Sheep ..	1872	20,780	3,650	Milch cattle	1913	2,264	490
	1913	17,130			1872	1,774	
Pigs ..	1872	2,586	484	Other cattle	1913	3,453	722
	1913	2,102			1872	2,731	
Total ..	..	..	4,134	Total ..	..	..	1,212
(Or 6 units of sheep and pigs=1 unit of cattle) (689)				Less loss in sheep and pigs (689)			
Produce of 3,000,000 acres of arable				Net gain in cattle .. 523			

Net loss equals the difference between the increase of about 523,000 cattle and the production of 3,000,000 acres of arable land.

The price of English wheat was steadily falling from 1871 to 1894—a condition due to the increase of imports from many quarters, but due in the first instance to the opening up of the great American prairies by the railroads. The price of beef since the “seventies” reached its highest point in 1883 and its lowest in 1895; that of mutton also reached its highest in 1883 and its lowest in 1909. The price of wool reached its highest point in 1874 and its lowest in 1902.* Meat prices also fell as a result of the foreign competition made possible by the development of transport facilities, but while prices fell the number of cattle increased; and it is also noticeable that the price of milk was falling while supply was increasing. Between 1850 and 1875 British farmers were too much concerned with the production of the great staples to notice the industrial market for milk and milk products, and fruit and vegetables, which was developing around them; consequently, with the influx of staples from foreign sources, it was difficult for them to change their methods to suit the new conditions. Changes in the market and in demand have occurred in many industries, but nowhere have they been more disastrous than in agriculture. As was almost inevit-

* PRICES OF AGRICULTURAL PRODUCE.

(Index Numbers, Cd. 7733, 1915.)

		<i>British Wheat.</i>	<i>British Beef.</i>	<i>British Mutton.</i>	<i>British Wool.</i>
1871	..	210.5	111.2	98.6	221.6
1883	..	154.5	125.9	120.8	111.4
1895	..	85.8	93.1	98.6	126.6
1900	..	100.0	100.0	100.0	100.0
1913	..	117.7	110.3	109.7	201.6

able with a system of control which did not provide contact with the great forces of the market leading to broad understanding, on one hand, or to specialization of function on the other, the management of the industry had failed to notice the changes which were coming. For the disastrous seasons both landowners and farmers deserved sympathy, but under normal climatic conditions the organization of the industry itself was at fault. Changes were made, mostly in the form of retrenchment in the investment of capital and use of labour; but the great idea of the managers was to enlist the protection of the State, instead of seeking for constructive methods of improving the industry. The great effort made was to preserve the *status quo*. Even since general prices have been rising from 1900 onwards, little general effort has been made to reorganize agriculture, and another great war found us with conditions in the industry grossly unsatisfactory to society. In particular, the standard of production was low, and the standard of life of employees was not comparable with that provided by most of the great industries. As agriculture is our greatest industry, it is no mean question why the production per head should only amount to about £90 per annum,* and average earnings† of all classes of employees to about 18s. 6d. per week, while in other industries both average output and earnings are much higher. The fundamental problem in agriculture, upon which all conditions of rural life depend, is to improve methods of production so as to increase both produce and the remuneration of capital, managers, and workers. But from the experience of the nineteenth century we have learned that society cannot foster changes in production which are not accompanied by a

* Cd. 6377, 1912.

† Cd. 5460, 1910.

proper balance in the distribution of wealth without grave danger of injury to its total welfare. The land must yield the nation the greatest possible service in the production of food, and, by sustaining a rural population, maintain the greatest possible reserve of physique and stamina; but the system of organization adopted for production must be such as will yield all classes concerned an adequate income; and in the establishment of population on the land, due regard must be paid to the amenities of social life.

PRODUCTION.

On the whole, the unit of production adopted in agriculture during the last forty years has been that of the medium-sized and large farms; the following are the sizes of farms as classified:

SIZES OF FARMS (ENGLAND AND WALES).*

	<i>Number.</i>	<i>Acreage.</i>	<i>Average Size Acres.</i>	<i>Proportion to Total Acreage.</i>
				<i>Per Cent.</i>
1 to 5 acres..	91,570	282,980	3	1.05
5 to 20 „ ..	121,698	1,366,990	11	5.04
20 to 50 „ ..	78,454	2,636,094	33	9.72
50 to 100 „ ..	59,514	4,340,952	72	16.01
100 to 150 „ ..	31,860	3,940,343	123	14.53
150 to 300 „ ..	37,615	7,848,424	208	28.95
Over 300 „ ..	14,413	6,698,221	478	24.70

Holdings of less than 100 acres constitute 32 per cent., and holdings of more than 100 acres 68 per cent., of the total acreage. And in the most numerous groups of

* Cd. 7926, 1915.

small holdings, between one and five, and five and twenty acres, there are many which cannot be classified as agricultural units. A study of some 360 holdings of from 1 to 50 acres in extent in Oxfordshire showed that only some 32 per cent. were genuine units in agricultural production. The others, while producing crops, were run as adjuncts to other businesses. Also, many holdings in these classes consist solely of pasture let as "accommodation land" to tradesmen and others. Some of the holdings in the groups of from 20 to 100 acres are in practice attached to other holdings, thus constituting a fairly large farm. In the group of large farms there are many of one or two thousand acres in extent. Since 1880 public opinion has turned against the large farm system as it had existed, partly because of the growing demand for vegetables and milk, which it was held the small holding could supply more advantageously; and partly because it held out no hope of economic or social advancement for the labourer, and provided only a meagre reward for his labour. This opinion was resolved into legislative action in the "nineties" and in 1907.

During the period of depression in the industry the area of cultivated land in England increased from 1870 to 1891, in which year it reached its maximum at just over twenty-five million acres. From 1891 to 1913 the rate of decrease was nearly 40,000 acres per annum. This has been due in the main to the growth of towns and the expanding demand for land for industrial purposes, and also to some dilapidation and the use of land for sporting or non-productive purposes. But the great change has occurred in the diminution of the area of arable. In England and Wales this reached its maximum of 13,839,000 acres in 1872; by 1914 it had

fallen to 10,306,000 acres.* This represents a loss of over one-quarter of the arable land, and a comparison of the total yield of cultivated land in 1872 and 1913 would show a decrease of nearly 10 per cent.

This change from arable to pasture is of immense importance to the nation. It is well known amongst expert agriculturists that arable land will produce more food than grass of the same quality. "A well-managed arable farm is . . . capable of supplying about twenty-seven times as much human food as is now produced by our poorest enclosed pastures, five times as much as pastures of moderate quality, twice as much as rich pastures, and about one-half more than well-managed dairy land."† In broad practice such a statement may be found to be too definite, but there is no doubt as to the general facts and the principle. More-

* As regards wheat, the following table showing conditions in European countries is instructive:

1909.	<i>Total Acreage under Crops.</i>	<i>Acres under Wheat.</i>	<i>Percentage of Wheat to Total Acreage under Crops.</i>
France	85,758,776	16,292,713	19·0
Germany	65,189,532	19,666,424 ¹	29·0
Hungary	34,869,652	9,470,427	27·0
Italy	50,461,484	11,753,742	24·0
Spain	53,606,114	9,343,257	17·0
Austria	45,485,043	8,073,472	18·0
United Kingdom ..	46,763,215	1,867,104	3·99

† T. H. Middleton, *Journal of Board of Agriculture*, xxii., 1915, p. 532. The whole of this article deserves careful attention. See also A. D. Hall, *Agriculture after the War*, ch. iii. (John Murray, 1916).

¹ Including rye, which is an important bread-stuff in Germany.

over, most poor and medium quality grass-land employs very little labour. Some rich dairy farms may employ as much labour as some arable farms; but many pasture farms of medium quality employ only one or two men per 100 acres, while arable employs from three or four up to seven or eight, and specialized arable farms employ much larger numbers.

Since 1900 the prices of agricultural produce in general have been rising, but the tendency to turn arable to grass and thus diminish production has continued. Much of the grass-land which exists could be improved by simple measures at little cost, but in many cases this improvement has not been undertaken. Farmers and their advisers appear to have had little confidence in the trend of prices or the increasing prosperity of the industry, although the prosperity has been shown during the last five or six years by a strong and widespread demand for farms, generally at increased rents, to cultivate on the old methods. But a small country like our own cannot afford to foster or allow farming on extensive methods which do not provide a high rate of remuneration for the bulk of the people engaged in the industry or supply a large amount of food.

During the cereal year 1914-15, under the stimulus of war demand and higher prices, the acreage under wheat increased by 25 per cent. over the average for the previous ten years. This was partly at the expense of barley and other arable crops, and to a small extent due to an increase of the arable area* in some counties, although the total area of arable still continued to

* Wheat would not be grown on newly broken pasture, oats being the crop generally planted, but the extension of the possible area for oats might leave land free for wheat.

decline. During the year a Committee on Production of Food was appointed, and its chief recommendation (presented in the Interim Report) was for a bounty on home-grown wheat. This raises the question whether wheat-raising under pre-War conditions was a profitable venture, and the question of the future trend of supplies and prices. The average yield of wheat is about four quarters per acre, and the average cost of raising the crop between £5 and £6 per acre. The cost may sometimes fall to £5 5s., but more often will be found to be £5 10s. or slightly over. This estimated cost includes the value of tillages and manurial residues left by preceding crops. In addition to the wheat must be counted the straw at from £1 10s. to £2 10s. per acre. Since 1907 the average price of wheat has not fallen below 30s. per quarter, and has ranged between 30s. 7d. and 36s. 11d., the average* being 33s. per quarter, or £6 12s. per acre. Still, wheat-growing has been profitably managed on some farms when prices were lower. On an Essex farm the records from 1894 to 1911—covering the period of the very lowest prices—show that wheat-growing gave an average profit of £2 18s. 8d. per acre, ranging from less than 7s. in 1895 to over £4 in 1911.† And wheat only plays a part in the rotation on the arable farm. The profit from a number of farms, largely consisting of arable, during the years previous to the War show a return on capital invested of from 10 to over 20 per cent., after paying 5 per cent. interest.‡ These profits include the wages of management, as well as earnings due to any extra

* Eight years, 1907-1914.

† Hon. E. G. Strutt, *Transactions of Surveyors' Institution*, vol. xlv., pt. i., 1912.

‡ A. D. Hall, *Agriculture after the War*, pp. 43, 44.

capacity in the manager. The difficulty of obtaining figures from English farmers is proverbial, but anyone going about on arable and mixed farms can see general evidence of prosperity compared with a few years ago.

Then what of the future trend of prices and supplies? This question deserves far more detailed consideration than can be given here, but a few of the factors can be considered. From 1886 to 1903 the United States was supreme as an exporter of wheat. Since the latter year exports have declined, and the place of America in the world's export trade has been taken by Canada and the Argentine. Since 1903 prices have been rising, and owing to the considerable variations in the annual yield in Canada and the Argentine, fears have been expressed that fluctuations in price would be frequent. In actual experience this is not marked, the wide area from which the total exports are drawn having been sufficient to keep supplies steady. In most of the new countries in which wheat has been a "pioneer crop," the value of land and the expenses of production have risen. During recent years prices have not been sufficient of themselves to stimulate production, and prices are not likely to fall unless exceptionally good harvests occur simultaneously in several countries. Even then visible supplies are never so large now as in the "nineties," and the effect would not last long. In the end it might reduce acreage. "Where wheat is Hobson's choice it will be grown; when alternative uses for land become possible, it will tend to diminish till the more advanced stages of mixed farming and crop rotation appear."* Speaking generally, this stage does not arrive till the industrial and consuming population of the country

* R. T. Hinckes, *The Farmers' Outlook*, p. 82. This book is a very useful study of this problem.

grows, as in the United States. In several countries which export wheat, complaints have arisen that no profit can be made at prevailing prices. This has been particularly noticeable in parts of U.S.A. and Canada. In some parts of both these countries the costs of production are higher than the average price at Liverpool. On the other hand, there may be areas, especially in the Argentine and Siberia, where cheap production or "wheat-mining" will be possible in the future, but most of these areas will have to meet heavy transport costs because of distance from sea-board. In Australia there are areas near sea-board, but the climatic conditions and prices do not lead to rapid development. Before we embark on a policy of tariff or bounty on wheat, much study should be given to costs of production in exporting countries. Also the import demands of many countries after the War, together with the outlook for shipping and freight rates, should be considered. On the whole, it appears that the tendency of the price of wheat will be upward. In the sphere of meat Great Britain has been receiving most of the world's exports. Recent developments on the Continent may make the European demand stronger, and with a revival of prosperity after the War there will be keen competition for both mutton and beef. In many countries, including Canada, U.S.A., and the Argentine, there is a comparative shortage of cattle. On the Continent the losses caused by cattle diseases are well known. In some areas the increase of population has caused the plough to supplant the sheep and beef cattle. Wherever the value of land rises in new countries meat becomes dearer. As stated in the United States *Year-Book of Agriculture* for 1909, "cheap beef is not the product of high-priced land." And during recent years a notice-

able feature of the meat market has been the fact that British beef and mutton have consistently averaged higher prices than imported supplies. Home-grown meat has little to fear from foreign competition. The consumer has more reason to be afraid of future developments than the producer. Indeed, one of the fears of the future is that farmers should be tempted to increase the area of pasture for producing store cattle and meat. Much the same conditions exist in regard to the supply of dairy produce. The chief advantage possessed by foreign producers is in the organization of manufacture and supply. In our own country the great demand for fresh milk, which was free from foreign competition, provided a market for this product, and organization of the manufacture of butter and cheese has not advanced far. Most of the butter and much of the cheese has been made on farms, but the consuming market demands a standardized product which cannot, especially in the case of butter, be made in this way. In most areas in which butter and cheese are made for export the factory system has been established, and if the dairy industry is to increase in this country, the organization of the butter and cheese industry must be developed. The key to an increased output of all products is an increase in arable area and the production of cereals. There is no question of corn versus meat or milk so far as production is concerned, although there may be in a study of the market demand and prices. Crop rotation and the maintenance of stock to increase fertility can provide a greater output all round. An increase in the intensivity of employment of labour, capital, and intelligence in agriculture is necessary before any important steps can be taken to raise a decent civilization in rural areas.

There is ample scope for the immediate improvement of production by the application of scientific and commercial knowledge to both production and marketing. It used to be the proud boast of British farmers that they produced more wheat per acre than the farmers of any other country. The farmers of Denmark surpassed them by about 5 bushels in the early nineties, but now the average is 42 bushels for Denmark against 32 for England. In Denmark the production per acre of all cereals has advanced, while in England it has remained nearly stationary. The Belgian farmers have also surpassed us in the production of wheat, their average being over 37 bushels. The average production of potatoes in England is higher than in any other country, being over 6 tons per acre. But in districts in England which specialize in this crop the yield is frequently double this quantity. British farmers have long been famous for their live-stock, and for meat production much of it is still unequalled, but in producing milk there is much to be done in increasing and grading up milk yields. We have only begun to keep records from which to obtain the data on which to select strains for breeding.

When the Small Holdings Act of 1907 was passed, it was a recognition that in certain spheres English farm and estate management as it existed had failed. Besides dissatisfaction with the remuneration of labour, society was not satisfied with the standard of production, nor with the poor facilities for the worker to rise to the position of manager. Many labourers thought they could produce more from the land than the existing managers, and some wished to rise to positions of control. Since the Act was passed, some 12,600 small holdings have been established on an area of 180,000

acres.* It is uncertain how many labourers have obtained small holdings, but of the total number not 3 per cent. have applied. The areas in which applications from labourers have been most numerous are:

				Proportion of Total Number.
Cambridge (Isle of Ely†)	...	14·7	per cent.	
Huntingdon	... ..	8·1	„	
Bedford	... ..	6·7	„	
Lincoln (Holland Division†)	...	3·8	„	
Cornwall	... ..	3·4	„	

In no other counties has the number of labourers applying for holdings risen to 3 per cent.; and in some only 1 per 1,000 has applied. The demand is particularly keen where the conditions favour the market-garden holding. Elsewhere the present rate of establishment of holdings will not do much either towards improving production or to enable a new class of managers to develop. Many of the holdings established are not sufficient to support a family, as the average size of 14 acres is not sufficient for this purpose under the methods of cultivation adopted. In England and Wales there are nearly 460,000 male employees in agriculture over twenty years of age. To provide small holdings of the average size for this number would require nearly six and a half million acres of land, or to provide 25 acres for each would require nearly eleven and a half million acres. In addition, the occupiers of land would have to be provided for. Most of the land of England and Wales would be required to provide holdings of 25 acres each for all adults engaged in agri-

* Cd. 7851, 1915. Up to end of 1914.

† Divisions within counties in which demand has been most keen.

culture. Or to provide holdings of 25 acres each for each one per cent. of an army of five million men would require one and a quarter million acres, or an area more than equal to the cultivated area of Berkshire, Buckinghamshire, and Cambridge combined. All the cultivated area of England and Wales would not provide holdings of this size for 22 per cent. of an army of this number. But, except in relation to market-gardening and dairying, it has not yet been proved that the small holding produces more than the large farm. There are many cases in which small holdings produce more per acre than neighbouring large farms, because the latter are poorly managed. But the small holding suffers from inherent weaknesses, two of which are fundamental. They are not suitable units on which to employ machinery and power to lighten and increase the effectiveness of manual labour, or when a large amount of capital is invested in machinery it is often idle and wasting because the unit is not sufficient to make full use of it. Nor does the small holding provide scope for the employment or adequate remuneration of the trained intelligence which is here so necessary. The small holder is, and must remain, the sole compendium of the resident knowledge of management. And the education of large numbers of small holders presents an almost insoluble problem. Moreover, experience proves that the system of production on the land must be such as will yield standard incomes equal to those provided by industry unless we are to have an ever-recurring problem of "rural depopulation." The Anglo-Saxon race will not accept conditions of life which are to be found in all peasant countries where the ratio of capital and intelligence employed in agriculture is low—conditions which may be found in

parts of France, Ireland, India, and China.* There is a definite place for the small holding in rural economy, particularly in the market-garden industry, but a general solution of the problems of production must be found in some other way.

The weakness of the large farm as it has existed is that its development has not gone far enough. While capitalization and specialization of management developed in industry—conditions which have made possible the modern standard of life—in agriculture both capital and management remained with the family unit. On the whole, farmers have been slow in adopting labour-saving devices, and except in rare cases their systems of production and marketing have been determined by tradition. There was little provision for the adoption of the results of scientific study in production, and perhaps less study of broad movements in the markets. The 300-acre farm has not offered sufficient scope to attract the type of managers who have developed production and distribution of goods in industrial spheres. For these reasons it is suggested that the organization of agriculture must proceed on industrial lines. Farms, it is said, must be sufficiently large to provide for the economical use of power, and to provide scope for the division of functions of management. Some of the advantages of the large farm may be summarized as follows:

Economy of Capital and Labour.—A farm of (say) 200 or 300 acres is not large enough to employ economically the machinery and power which ought to be employed in its operations. For instance, if one-half is arable, a motor plough will do the work in from twenty

* A fuller discussion of this problem will be found in *An Economic Survey of Small Holdings in Oxfordshire*, by the present writer, and now in the press.

to thirty days, or perhaps less. During most of the year it may be both idle and depreciating in value. It may be urged that the use of power may be organized among a group of farmers, but this type of organization is never so effective as that of a unified control. And the fact is that for various reasons the organization has not developed.* By the use of power, manual labour may be distributed or bulked, according to need, for the various operations. Without higher capitalization in machinery the production per man can never be so high as in industry, and manual labour is wasted.

Economy in Buying and Selling.—It is well known that the cost of distributing agricultural produce is a great factor in price. From 30 to 60 per cent.† of the consumer's price is due to costs of collection and distribution, because of the number of small units handled. In market-gardening, in which the small producer is able to compete with his larger rival in production, he is heavily handicapped on the business side. Even with organization of small producers, products can be graded, standardized, and bulked with greater care and less cost on the large unit. In buying similar advantages are obtainable.

Economy in Land.—Following the necessary rotation and interchange of stock on small farms necessitates small enclosures, every one of which is surrounded by a fence, which takes a considerable amount of land out of the actual productive area. The value of fences where cattle are kept, especially in the maintenance of freedom from disease, has been illustrated in the history of our own common fields, and is seen to-day on

* There is, of course, some hiring, but this is not as prevalent as it might be. There are also a few recently formed co-operative societies for providing machinery.

† Milk approximately 100 per cent.

the Continent, where fences are more rare. But with the larger flocks and herds of the industrial farm this value can be retained by a much smaller number of fences, giving larger areas for actual production of food.

Management.—The present farm, of whatever size, has to support one manager, who is supposed to be able to control efficiently all aspects of the business. If a manager is really equal to the general control of a farm of 200 acres, the same knowledge would enable him to manage much larger areas provided there was proper organization. But the really large unit would provide scope for delegation and specialization of functions of management, while particularly providing opportunity for the men of proved capacity to rise to positions of control of capital and labour on the land. At present only the man who has capital can gain control. The industrial farm would also be able to pay for expert advice and assistance, and with the help of methods of keeping accounts, would be able to test new systems.

The chief criticisms of the suggested industrial organization of agriculture arise from the fear that it would develop the industrial drawbacks—particularly the strife between capital and labour. But it should not need stating that troubles in regard to wages and housing have long existed in the industry, and labour has been unable to make its needs felt. Some drawbacks of the industrial system could never arise; *e.g.*, a man would not have to spend his life in an operation equivalent to turning half-inch bolts, because of the variation of the work with the seasons and the crops. Employment in larger groups, with more standardized conditions of labour, would provide the ground for labour organization. And only in some form of mutual association can the labourers find a solution of their

class problems. Unorganized industrially and socially, they are without power either in the industry or politics, and cannot determine the conditions of their lives. The State may step in to raise wages, or a benevolent employer or landlord may pay fair wages or provide decent houses, but a spoon-fed labourer can never be a man or a self-directing citizen. If the "industrial farm" is for the moment only an idea,* it is the most potent idea in the realm of organization of production that has yet arisen in the industry.

However, the medium-sized and large farm as at present organized will long remain with us, and means for the improvement of production on these units must be considered. The present generation of farmers are mostly descendants of farmers, and unless changes in organization occur, their descendants will be the future directors of the industry.† By the enactment of the various Agricultural Holdings Acts, especially that of 1908, the State has placed control of production in the hands of farmers. Except for breaking up pasture, a tenant may organize his business as he likes. But farmers must not forget the responsibilities which accrue to the rights they have obtained, nor use State-given security merely for their own profit without regard to the needs of the State. Should they meet with any reluctance from landlords in a desire to increase the arable area, the State should give power to the Board of Agriculture to decide between landlord and tenant, having regard to the national interests. Or should a landlord be unable or unwilling to provide the permanent equipment required by a tenant, as is usual

* There are one or two examples of farms which approximate to this idea of organization. In other countries there are many examples.

† For a study of the origin of farmers, see R. V. Lennard, *Agricultural Wages*.

for him to do, the State should take power to acquire the property rights. In all cases where land is not fully used, because of the attitude of either owner or tenant, the State should have power to intervene by purchase. Some other aspects of this problem will be considered in regard to education, but it is most important that the national authority should prepare to exercise all necessary control of land, and, if eventually necessary, to acquire all property in land.

There is some danger that if the public fail to find any improvement in the present system, public opinion will cause too great an extension of small holdings. If this movement resulted in the establishment of Continental conditions, the effect would be disastrous.* The present

* For a summary of opinions on conditions in France, see Sir W. E. Cooper, *England's Fatal Land Policy*, pp. 282-286. There are other studies available.

OUTPUT PER PERSON EMPLOYED IN AGRICULTURE.¹

At present we have a larger output per man than almost any other European country, and this should be maintained.

	<i>Men and Horses per 1,000 Acres of Cultivated Area.</i>		<i>Produce and Number of Stock per Agriculturalist.</i>			
	Men.	Horses.	Corn & Pulse Crops (Bus.)	Cattle.	Sheep.	Pigs.
United Kingdom	48	43	129	5	13	2
England	45	45	157	5	13	2
Austria	180	40	52	1	0.3	1
Belgium	155	58	101	3	0.3	2
Denmark	72	76	204	5	1	3
Hungary	139	54	96	1	1	1
Italy	187	18	34	1	1	0.3
Netherlands ..	116	62	69	3	1	2
Prussia	113	62	144	2	1	3

¹ *Agricultural Statistics, 1912, pt. v.*

administration of the Small Holdings Act needs improvement. In the first place, holdings should be sufficient to maintain a family on the system of cultivation best adapted to the soil and the markets. If capable cultivators have not sufficient capital to warrant this, means of obtaining capital should be provided. The experience of credit societies in this country is neither very instructive nor inspiring, but the organization of the supply of capital is not beyond the capacity of those who are interested in the subject.* With easier conditions for obtaining capital, the small holding should be an avenue of advance for capable managers in the industry. The soils and market conditions should be studied to secure that holdings should be established in suitable districts. Some few holdings—to provide the agricultural ladder—may be provided in every district, but only the colony system can provide the conditions under which small units of production can be economically or successfully worked. To establish groups of holdings far from a consuming market, without organization for reaching a distant market, is to court disaster. Unless established in groups for the co-operative use of implements, etc., small holdings are worked under great handicaps. And as the State is now owner or sub-lessor of the land, every effort should be made to stimulate production. In particular, it should do its duty in regard to provision of permanent equipment. The State itself, through the local authorities, is not the smallest offender in respect of the landlord's responsibilities in regard to production. While

* The Agricultural Organization Society is now making a study of credit conditions in England and Wales, and hopes as the result to be in a position to put forward a scheme of agricultural co-operative credit of a comprehensive character.

this is true, it is easier for the public to impress State authorities with its demand that land should be put to its best use than it is to move landowners whose interests are not identical with those of the public. The Small Holdings Act should be amended so that public authorities would not be able to sell land purchased for small holdings, except perhaps for building purposes. Since 1908 it has cost the national Exchequer over £200,000 to acquire land for small holdings; in the year 1914 the cost was over £43,000. This is an expense which should not be duplicated, and the principle should be laid down that once agricultural land becomes national property it should so remain.

RECLAMATION AND AFFORESTATION.

Akin to the subject of intensification of production on land under cultivation is that of increasing the cultivated area by reclaiming land. The approximate disposition of land in the United Kingdom is as follows:

		(ooo's omitted.)
Cultivated area (grass and crops) ...	46,763	
Woods and plantations* ...	3,069	
Mountain and heath land used for		
grazing ...	20,665	
Water, town sites, roads, etc. ...	7,023	
		<hr/> 77,520

* The proportion of land occupied by forests and woods in European countries is instructive:

Per Cent.				Per Cent.			
England ...	...	5·3		France ...	...	17·0	
Scotland ...	...	4·6		Belgium ...	...	17·3	
Wales ...	...	3·9		Germany ...	...	25·9	
Ireland ...	...	1·5		Hungary ...	...	27·5	
Denmark ...	...	7·2		Austria ...	...	32·6	
Holland ...	...	7·9					

(Departmental Committee on Irish Forestry, Cd. 4028, 1908.)

According to the report of the Royal Commission on Afforestation,* there are over three and a half million acres in Great Britain almost exclusively devoted to sport, which must be deducted from the area of rough grazings. In any case this rough grazing-land produces only a few pounds of mutton, perhaps twelve or fifteen, per acre per annum. Much of it is afforestable, this area being estimated at six million acres in Scotland, two and a half million acres in England, and half a million acres in Ireland.† Timber is comparatively scarce, and tremendous demands were being made on the world's forests even before the War. For about thirty years the price has been continually rising, and some land could be afforested with financial advantage to the State, if a good system were adopted. How far afforestation which will bring an economic return can proceed is a large question. If the recent quantitative demands on the world's timber stocks continue for the next forty years, the result would be enormous increases in prices which would pay for the use of land of a comparatively high annual value; while at present prices, only land of very low annual value can be economically afforested. It is almost impossible to estimate future demand for timber because of the possibility of substitution of metal for many purposes. But the abnormal felling of our home-grown timber during the War makes the problem an urgent one. Since 1880 the area of land under woods and plantations has been increasing, but not at the rate warranted by the market conditions. Some landlords may replant the woods which have been felled, or even add to the area, but there will be certain

* Cd. 4460, 1909.

† This estimate is now regarded as too high. Probably six million acres in the United Kingdom is nearer the actual amount.

to be areas of unused woodlands. Here again the State and local authorities have not been so enterprising in the use of land as might have been expected. The Crown has only about 65,000 acres of woodlands, and these are not administered so well as they might be. Two municipalities among many possessing land have made small experiments in afforestation. However, some little advance has been made in the matter of education in recent years, and more may be anticipated. As in the case of cultivated land, there should be developed a national policy with regard to woods and forests, a vigorous supervision of forest areas, and the State should have power to take and replant such woods as have now been felled and are not replanted by owners.

Then there is land of many varieties, including accretions from the sea, both slob-lands and sands; low-lying moor and bog; heath and upland sheep-walk; much of which could be added to the present cultivated area, and other which could be improved for grazing purposes. Some of this improvable land belongs to the Crown, some is private property, and on other portions rights of various types exist. Since 1891 reclamation of land for agricultural purposes has practically stopped, while some has been allowed to dilapidate. So if any progress is to be made, the State must take power to acquire land which can be reclaimed. It would be possible to increase our cultivated area, the area of woods and forests, and make other rough land more productive with practically certain economic returns. The reclamation or afforestation of land which is at present less promising might be justified on other than economic grounds, but little private effort may be expected, and everything depends upon the develop-

ment of State policy and administration with regard to reclaiming and planting lands. Before any big advance can be made, we need a survey and schedule of such practically unused land as can be reclaimed, afforested, or improved.

LABOUR FOR PRODUCTION.

It is urged with much reason that reclamation or afforestation would find useful employment for part of the army during the period of demobilization, and would also provide a means of transferring labour to the land. The problem of labour for production is an urgent one, as is also the maintenance of a larger proportion of the population on the land for the purpose of maintaining a healthy and virile race.

Before the war there were over 600,000 male agricultural employees in England and Wales, and between one-third and one-half of these have gone into the army. These men are trained for farm work, and their natural sphere in the nation's industry is on the land. But many of them will not return to the old conditions of labour and life. On the whole, wages have not risen more than 30 per cent. during the War period. In some cases earnings show a greater increase because employment has been regularized and intensified. The general increase is not sufficient to meet the rise in prices. It is unlikely that the future increase in wages will be sufficient to counterbalance the rise in prices, so the problem of wages will remain. Owing to the general social attitude towards the question, the employment of child labour has not gone far, but it has been allowed to go too far already.* One County Education

* By June, 1916, over 15,000 boys had been allowed to go to farm work under the normal age.

Committee reports that "in some agricultural districts the fall of wages, as represented by purchasing power, has led to a shortage of nutritious food and resultant listlessness. More work is done out of school hours, and here and there the children are too tired to learn."* And this county is by no means the worst offender in regard to child labour. On the dual ground of the child's welfare and the need of intelligent workers and citizens in the rural districts, some provision must be secured for the future attendance of the child workers at school. Possibly there are some 40,000 to 50,000 extra women working on the land in various capacities.† Some of these are patriotic workers of middle-class origin, and will not desire to continue their employment after the War. Others are wives of villagers who will not find it necessary to continue this employment on the return of their husbands. But some are domestic servants or urban workers who will not find it easy to return to their usual employment. Before the War the usual rates of pay for women workers varied between

* Warwickshire County Council, *The Schools and the War*.

† The number of women engaged in occupations on the land in 1911 was as follows:

Farmers and graziers...	...	...	...	20,027
Daughters and relatives	...	...	...	56,856
Farm bailiffs and foremen	...	...	...	25
Shepherds...	...	...	...	6
In charge of cattle	...	...	...	4,934
In charge of horses	...	...	...	—
Ordinary labourers	...	...	...	8,280
In woods	...	...	...	2
Nurserymen, seedsmen, and florists	...	...	...	1,170
Market-gardeners (including employees)	...	...	...	2,449
Other gardeners (not domestic)	...	...	...	583
Agricultural machine proprietors and attendants	...	...	...	60
Others	...	...	...	333
Total				94,725

1s. and 2s. per day, but were generally about 1s. 6d. The rates now paid vary from 3d. per hour for odd work to 12s. and up to £1 per week for regular work. And when the men return to the industry in numbers approximate to those required, the rates may be expected to return to about 12s. per week, and in some districts less than this. The question of the place of women in the industry, however, is of far greater importance than that of their rates of wages. The number of female agricultural labourers diminished from over 40,000 in 1881 to about 13,000 in 1911. The primary cause of this was that in the "sixties" and "seventies" the competition of women's labour had lowered the rates of wages for men in the Eastern, Midland, and Southern Counties in which labour was plentiful. Also the great suburban demand for servants provided alternative occupation, while changes in the organization of farms left less scope for their abilities and legal enactments (Agricultural Gangs Act, 1867) hampered the form of their employment. In a few districts they have continued to be numerous on farms. In Northumberland and Durham, where male labour has been less plentiful and rates of wages for both men and women have been comparatively high,* they have been employed partly because of the high rates demanded by men; and in such districts as South Lincolnshire because the system of cultivation offered scope for their peculiar capacities.

Wherever anything in the nature of market-gardening is carried on there is work better suited for women than on ordinary farms; and, on the whole, it is in the lesser branches of the land industry, gardening, poultry-farm-

* For a discussion of reasons for higher wages in Northern Counties, see Lennard, *Agricultural Wages*, ch. iii.

ing, and certain aspects of dairying, that suitable work for women will be found.* With progress in these industries, especially in the factory organization of dairying, many openings would be provided for women workers. But the establishment of women on farms as ordinary workers cannot be regarded as anything except a retrograde step. According to Lord Brassey, women are compelled to share in the manual labours of men only in the less civilized parts of Europe. "This practice is to a large degree the cause of that very poverty it is intended to alleviate. The introduction of so many additional hands into the labour market has a marked effect in diminishing the reward of labour." Already some of the organizations placing women on the land have told applicants that it will be well if they have an independent source of income, so as not to depend entirely upon their earnings. For those who have not, it will be good for society if they marry rural workers and settle down in the country-side. For many years the migration of bright girls from the villages has been more disastrous to the national interest than the migration of men. For those who remain on the land wage protection must be provided in the same way as for men. But in the end, the problem of obtaining labour for production will be one of inducing men to return to the land. The married men will return, temporarily at least, to their wives. Most of the single men will revisit their relations. If the conditions of labour offered at the time meet their demands, little difficulty will be experienced in obtaining their labour, except in the Northern Counties, where labourers with

* Cf. Mrs. Roland Wilkins, *Journal of Board of Agriculture*, September and October, 1915. Viscountess Wolseley, *Women and the Land*, 1915.

families are comparatively few. In these counties the Labour Exchange service for agriculture should be developed, and in all cases farmers and men who can make terms should be encouraged to apply for the release of men from service directly on the termination of the War. Should an industrial slump set in, there will be greater tendency to return to the land, but many soldiers may be expected to emigrate to the colonies. Almost everything depends upon the conditions offered at the end of the War. The land of England can support a much greater population than during recent decades, but such maintenance depends upon heavier production from the land, and in particular the maintenance and increase of the rate of production per head. We might increase our rural population without increasing our production in proportion, and thus lower both the standard of life for all classes and the amount of food available for our industrial population, either of which would be a fatal step.

CONDITION OF THE AGRICULTURAL CLASSES.

The rates of the labourer's wages before the War scarcely need recapitulation. It is sufficient to say that average earnings amounted to less than 19s. per week, and in some counties fell to 16s. or even lower, although they have been rising during this century.* Up to the

* INDEX NUMBERS OF CASH WAGES OF AGRICULTURAL LABOURERS.

				<i>England and Wales (Earnings).</i>	<i>United Kingdom (Earnings).</i>
1900	..	..	..	100-0	100-0
1907	..	..	..	102-0	103-2
1913	..	..	..	109-0	111-2

end of 1915 cash wages in some parts of Oxfordshire had not reached 15s. per week, and total earnings for that year would not exceed £40. In only one district of the county would earnings (including rates of cash wages, allowances, and extra earnings) average more than £1 per week. Somewhat similar conditions could be found in other Southern Counties. Wherever farms are situated at a large distance from industrial areas, and do not quickly feel general movements, wages under all circumstances rise very slowly. Among farmers in purely farming districts there exists a fairly well defined agreement as to wages, and the farmers who would like to raise rates rarely venture to do so. Some of these regard the present increase in rates in a favourable light, and look to their remaining permanent. Others anticipate, not without relief, that the end of the War will bring an approximate return to previous conditions. It is impossible to predict what other increases may occur during the period of the War, or what will be the exact conditions at the end; but it is fairly certain that there will be districts in which the prevailing rates will be unsatisfactory both to returning soldiers and to society at large. If industrial conditions are disorganized and unemployment rife, men will have to return to the old conditions of half-hearted labour and general discontent. If other openings are offered, many will not return except for a temporary visit. So it behoves society to watch conditions and take the necessary steps to secure the maintenance of the population on the land.

The most satisfactory method of raising wages would be by mutual action on the part of the labourers. The old myth of the personal relations of employer and employee in agriculture is now nearly exploded. In

determining rates of wages, most farmers think more of their relations with neighbouring farmers than of those with their workmen. Some recent disputes have shown considerable collective action on the part of farmers, and several definite "associations of employers" exist in the industry. Before the War unionism in agriculture had been growing in numbers and power, but comparatively little may be expected from unionism in the general amelioration of the labourer's lot for many years to come. As in the "seventies," one obstacle is the labourer's lack of surplus income to provide adequate support for an organization. As a matter of self-protection, unions of unskilled workers in urban areas might give further assistance to rural Trade Unionism, but no single organization of workers in town and country is likely to be successful. Farming is an intricate business, and an organization of its employees should be directed by people who are intimate with its details.

The personal action of the labourers is essential in any organization for raising wages. A rise in wages brought about by the direct action of the labourers would be worth in all essential values double the amount of one provided for them. If legislation is proposed, it would be better to establish an organization which calls for effort on the part of employees, such as County Boards on which both employers and employees were represented, than to provide increases directly by statutory enactment; for while the immediate results might appear small, they would be broader and more permanent. The watchful interest and feeling of self or mutual dependence on the part of labourers must be an essential element in any scheme for raising wages which

will have permanent effect. The personal effect of mutual organization in any form will be of more importance than the immediate economic result.

But other conditions besides those of wages are important, and chief among these is housing. It should be a principle of social economy that each industry should be so organized as to enable every worker to live on the standard generally accepted as necessary for the well-being of the citizen. Mainly because of the rates of wages, this standard has not been reached in rural housing. Landlords have not been disposed to build at the prices prevailing in recent years, because they could not secure return on capital. For the same reason private investors have not been willing to build. But before the State subsidizes the present organization of the industry by providing cheap capital for housing, it should be proved that the industry cannot afford to provide it. A colliery company does not expect the State to subsidize the housing of its miners, nor should landlords and farmers expect other members of society to share the expense of maintaining their employees. And if the State eventually has to find money for rural housing, this action should be accompanied by drastic requirements for changes in the industry, for it will be proved that its management has failed to serve the social purpose. A permanent improvement in wages would stimulate improvement in housing conditions. Of great importance, also, is the question of the labourer's hope of advancement. Only some 2 or 3 per cent. of the labourers can hope to become farm foremen, and only about 3 per cent. small holders, under present conditions. For the rest there is no hope of advancement so long as they remain in

the industry. This is a condition which cannot be remedied under the existing organization, except by increasing the number of small holdings.

The position of the farmer is a difficult one to estimate. Few farmers keep accounts, and very few of their earnings can become known, especially as the method of collecting income tax has not provided a guide. But some few cases are known in which high rates of profits have been obtained in years previous to 1914. In some of these the comparatively small capital has been doubled within a short period. The increase of capital from earnings has been quite general within recent years, and competition for farms has been keen. But owing to conditions existing in the "nineties," capital was frequently small, and up to 1914 was only becoming adequate to the proper working of the farm. During the War many farmers have been reaping a rich harvest. Some few are preparing to sell out at the prevailing high prices, invest their capital on the favourable terms now possible, and retire. This may induce others to "lay farm to farm," or farm large areas on a system of low capitalization. It is essential both in the interests of production and of labour that such a movement should be prevented. If prices after the War show the same tendency to rise as before, farmers can afford to invest more capital per acre, and to pay better rates of wages than many of them have been doing. One of the curses of the industry has been that the landlords were not inclined to press for higher rents, while the labourers were not able to press for higher wages, so the farmer has not felt the stimulus of stern pressure to improve his organization.

Like the farmers, landlords lost a good deal of capital

during the depression.* The average value of land fell from £51 16s. per acre during the "seventies" to £26 10s. per acre about 1894. This includes considerable dilapidation of permanent equipment which occurred, owing to lapse of tenancies, etc., during the "eighties" and the "nineties." The gross income from agricultural land reached its highest point in 1876 at £52,000,000, and from that year continued to fall till it reached £36,367,000 in 1909. The rateable value of lands fell slightly from 1894 to 1907. The average rent is supposed to have fallen from over 29s. per acre in 1875 to about 21s. in 1894. And specific information for some estates shows that rents were lower in 1900 than for any period since 1820. But since 1909 both gross income from agricultural lands, as shown by Income Tax Returns, and rateable value have tended to rise. Within the industry it is well known that rents have been rising since 1910.

However, many nominal owners of estates possess only a life-interest, and other estates are burdened with interests of various kinds. Where landowners depend mainly on agricultural estates for their incomes, they have been very hard hit by recent conditions, and even now many of them have not sufficient income or capital to equip estates. Economy, or the system of spending least which so often passes for economy, is their main pursuit. On the other hand, some owners of estates care more for the amenities of their residence than for economic return. Both these conditions are dangerous to society. What is needed is a business policy, founded

* Various estimates of the loss of capital during the depression have been made, but it may be reckoned that the depreciation of agricultural capital was at least £1,000,000,000, the landlords' loss being from £800,000,000 to £1,000,000,000 and that of farmers about £100,000,000.

on exact knowledge, in regard to all estates. If landlords cannot equip land for production and the State is not ready to acquire rights and responsibilities of ownership, some provision of capital should be organized.* If landlords will not equip estates, then the State must take them over. Confidence in the future of the industry is still lacking, and as landowning is by no means a simple business, some owners are waiting for a lead. It is a good sign that attention is again being drawn to the responsibilities of the landowner in production.†

EDUCATION.

If the State were ready to acquire the rights and responsibilities of ownership of agricultural land, it would be simpler to advocate national ownership and control. Many farmers prefer to rent land under corporations and under the Crown than under private owners. But at present neither the authorities nor the public has formulated any policy with regard to management of land. Some experience of both ownership and actual cultivation has been gained by public bodies, but this has never been collated or in any way studied. Thus under the present conditions some education of landlords, whether public or private, is necessary. The type of education needed is perhaps not highly technical, but largely economic. To know how to equip or organize a farm for production needs some knowledge of soil and of local or, quite frequently, world-wide market conditions. For instance, to decide whether to

* There is already some provision of capital for equipping estates under the Improvement of Land Acts. The number of applications for funds in 1913 was 185, and the amount raised £104,000 (Cd. 7336, 1914).

† *E.g.*, Viscountess Wolseley, *Women and the Land*, pp. 102-118.

allow grass-land to be put under the plough needs the ability to judge the possibilities of production of commodities and the probable conditions of a market determined by world-wide influences. To inspire improvement in actual production needs a broad experience of men and methods in the industry. Amongst many institutions which are teaching agricultural subjects, not one has yet tried to teach the broad principles of economic policy of management of land. Until some study is given to this subject, neither the State nor private owners can formulate the sound policies necessary for the future development of the great rural industry.

But while little study has been given to the economics of land ownership and cultivation, the study and teaching of other branches of science in regard to farming has undergone considerable development. There are now some fifteen institutions engaged in research, and some twenty-three institutions engaged in teaching, to which the State makes grants.* Besides these, there are some private institutions for the training of farmers. Every county education authority also spends money on agricultural education, and though some do a minimum of this necessary work, others are keen to develop agricultural training. The most important development of recent years has been the establishment of farm institutes in several counties. Unfortunately the War has been the cause of some of the colleges closing down, of curtailing expenditure of local authorities, and of stopping promising developments.

But the question of education is fundamental to all

* Cd. 6601, 1913. The Board of Agriculture issues an annual report on Grants for Agricultural Research and Education.

rural problems. Many of the proved results of science are waiting for adoption into general farming practice. The difficulty is to get farmers to appreciate the value of education. In America it has been proved that a good general education is of direct financial value to the farm manager, and that expenditure on a good general education is a sound investment for the prospective farmer. In both the United States and Canada farmers show a growing interest in agricultural education. But in England the total number of students studying agriculture, horticulture, dairying, and forestry in 1912 would not amount to more than 2,000.* This includes persons studying for degrees, diplomas, certificates, and those taking only short courses. Most students taking degrees do not become actual farmers, as is the case with many who take diplomas; and many students in all classes go to the colonies to farm, and some to take official positions. So, omitting students studying for degrees, gardeners, forestry students, and dairywomen who go into factories, and allowing for some students who go abroad, not more than a thousand students are preparing for farm life, and numbers of these have had only a short course of study. There are over 228,000 farmers and graziers in England and Wales, and these are assisted by nearly 100,000 relatives, of which probably less than one in three hundred have received agricultural training in institutions. Assuming that there are 300,000 managers of land in each generation, and 1,000 receive some training in each year, this will give us a class of which one person in ten has received some training in institutions, which is by no means sufficient.

But it is not only in modern methods of treating

* So far as I can ascertain, the number of students in institutions to which State grants were made was 1,506.

soils, plants, and animals that many farmers need instruction. Their business methods are also backward. Most of them keep no accounts, and do not appreciate the value of them. Indeed, it is doubtful whether any other business is run with the same lack of exact knowledge of results. Most farmers are also ignorant of any but the local markets for buying necessities or selling produce, and many are ignorant of even local methods of banking, especially of the credit phase of banking business. A better general education is necessary in many cases before other instruction is given. But perhaps the greatest hope for the near future is in the extension of the itinerant work of the county instructors, and the increase of the number of county farm institutes. These should whet the appetites of the younger generation of the farming class; and after the War no effort should be spared to develop local agricultural instruction under the county education authorities. But without some severe pressure upon the industry the majority of farmers will continue in the traditional ways. Here and there a farmer is keen to learn anything he can both in cultivation and business, and some of these are anxious for others to learn, but even farmers themselves find it difficult to leaven the lump of their class.

To lay the foundation of general intelligence which will be needed by both farmers and employees in any future advance in the industry, some general improvement in rural elementary education will be necessary. The lowest age for leaving school should be fixed at fourteen years; and if compulsory attendance for certain hours of the day or evening could be secured for the following year or so, it would be an advantage. In most village schools the "ruralizing" of education of

children below thirteen years of age has now gone far enough, and in some has gone too far. Farming is not a business which can be learned only during long years of unvarying application and toil. Intelligence and the general powers of mental appreciation are more important in the equipment of the farm labourer of the future than in the equipment of many artisans, because of the varied characters and capacities of the numerous things with which he has to deal. And the training of the rural elementary school should be designed to create at least the same measure of intelligence as that reached in the urban school. The village child as such must not be pressed into the agricultural service of the nation against inclinations or to the detriment of his economic position. Nor can a modern society afford to maintain a large body of backward rural citizens. If democracy means anything, it must mean democracy in the training for citizenship; otherwise democracy or the State will become a gigantic failure.

Some development of training for village boys who have become farm workers will also be necessary. This will be best secured through the work of the local itinerant instructors, or, where they can be found, part-time resident instructors. In some areas it would be possible to draw youths from several villages to class centres for instruction for half-days or evenings. The subjects on which instruction is needed are very numerous, but besides such subjects as carpentry, hedging, and other handicrafts now taught in evening classes, some instruction in mechanics, related to machinery which is or can be used on the farm, would be useful; talks and sometimes simple illustrations on animal anatomy, with regard to health and breeding of animals, would be appreciated by young cattlemen and shep-

herds who in their later years in charge of cattle need some of the qualifications of a veterinary surgeon; and some such lessons would deal with the horse, about which nearly all carters are anxious to learn. Some knowledge of the nature, peculiarities, and needs of soils and crops will be fundamental to the success of future managers of land. With intelligent and experienced managers of farm crops and stock, many labourers would pick up much information and experience; but as things are, many managers do not understand the nature of the things they are dealing with, and numbers do not know the causes at work in combinations the result of which they confidently expect. But if any proportion of the labourers of the present and future are to become small holders, and some are to eventually control large farms, a greater measure of education is needed for the safety of the State in the use of its land. Not every youth will appreciate opportunities for education, and not every one will want to become a small holder, but for such as are ambitious or anxious to learn, provision must be made.

Unless wage conditions are better than was generally the case up to 1914, any attempt to raise the age of leaving school would probably arouse mild opposition on the part of some parents who would be deprived of the year's earnings of the child. With the establishment of better wage conditions, either naturally or by State action, such opposition would not be formidable. Some opposition would arise from farmers, but it would be no essential hardship to stop sources of cheap labour while there is so much scope for the application of machinery and power in the industry.

The underlying problem in all the details of betterment of rural life is to secure greater application of

knowledge to cultivation and better business organization in the predominating industry. And while the question of wages is fundamental to the schemes for maintaining or increasing the number of workers on the land, the ability to pay wages eventually depends upon production, so stimulus or pressure must be brought to bear on owners and farmers of land to provide or make provision for the necessary capital and intelligence in all the branches. If they cannot or will not do this, the State must prepare to play a larger part in the direct control of agriculture. We need such perfection of technical equipment and improvement of organization, leading to the most economical use of labour, as will enable us to produce adequate material basis for a high civilization in rural areas, so that the high productivity of labour will open to the whole of the agricultural classes the door to the highest values in life. The primary problem is one of the proper organization of production, but the problem of distribution is only secondary in point of time. Without balance in the distribution of the results of industry we cannot create conditions under which men will do their utmost in their own sphere of production. Incessant toil for poor reward is not the condition under which the keenest faculties are developed, nor is it the soil in which the highest human qualities will grow. Spiritual values in life cannot be separated from general material conditions; and the psychological conditions under which production is carried on with least feeling of pain and trouble cannot be separated from the prevailing system and effects of the distribution of wealth.

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VII

CREDIT AND BANKING

I.—THE PRINCIPLE OF CREDIT BANKING.

EVERYBODY has a fairly clear idea of what credit is in its simpler forms. Perhaps it is at its simplest when a schoolboy runs up a bill at a tuck shop; or when a village inn stimulates the consumption of beer by the simple expedient of not demanding payment on the spot, but allows settlement of the score at the next pay-day. In both cases the granter of credit hopes to receive the money at some future time, and grants the credit because there is reason to believe the recipient of it will be in a position to pay: in both cases, also, the granting of credit involves parting with something on the spot—sardines or four-ale—for the receipt of something in the future. The evidence of debt may be some scrawls on a slate or merely a verbal acknowledgment of indebtedness, but the essence of all credit transactions is present in these very minor operations, the object of which is immediate consumption.

A step higher in the scale is represented by the relations between the shopkeeper who supplies the goods to the consumer and the business firm which supplies the shopkeeper. The enterprising gentleman who per-

suades the old shopkeeper to buy a new "line" of sweets clinches his argument by saying that his firm is prepared to give generous credit. Again, he hopes to receive in the future the equivalent of what is being given in goods now. The sum is a little larger, the evidence of indebtedness is legally more secure, because the old lady probably signs a document known as a bill of exchange, promising to pay in three months' time, but the essence of the transaction still remains the same.

The firm which sold the sweets probably got them on credit from the manufacturer, and the manufacturer is probably buying his sugar on credit, and his chances of paying his bills of exchange are based on getting the wholesaler to pay *his* bills, who depends on the shopkeeper paying hers, who depends on Jones Minor not breaking his solemn promise to pay—which promise again rests on the expectation that parental generosity will be stimulated by the sight of a Latin prize. Each stage in the evolution shows larger and larger sums, more and more definite contracts, and heavier losses if the trust implied proves falsified by events.

What are the advantages of this system from the standpoint of economic organization? Some people would be inclined to say that there are none. They would say that credit is merely a means by which Jones Minor is encouraged to eat too many sweets and John Smith to drink too much beer. And as it is perfectly true that men "discount" the future and regard paying ten shillings down with much less equanimity than paying twelve shillings a month hence, there is no doubt that easy credit encourages extravagance, as most Oxford undergraduates ruefully admit. Nevertheless, reflection will show that credit is not merely

perfectly justifiable when it is not carried to extremes ; it is also absolutely necessary. It enables production to be much steadier than it would otherwise be. Instead of never ordering sugar except when the money is at hand to pay for it, the manufacturer orders the sugar, turns it into sweets, and pays for it when his customers pay him, using his own means to pay his workmen their weekly wages. He can therefore produce more steadily, and manufacture in anticipation of a demand, which he would probably not be prepared to do if his own funds were to be "locked up," as he would say, every time he buys sugar to manufacture, when no orders were to hand. Goods are not all sold at once, and the result of a rigid insistence on cash payments would be that smaller amounts would be ordered, giving a great deal of trouble, and leaving less room for economies in distribution, and so on.

We see, therefore, that quite an elaborate credit system can grow up without introducing the idea of a banking system, as usually understood. Our next task is to link up the credit system with the banking system.

We may notice, in the first place, that the relationship between the incomings and outgoings of a business firm are not quite so regular as we supposed. At one time there will be more money lying idle than at other times. Furthermore, as all the profits of a business are not reinvested in that business, and as in any case people do not always spend the whole of their money income in the purchase of immediate utility-yielding goods and services, the need for some place where money can be safely deposited, and whence it can be drawn at need, arises. Any person or institution which accepts sums and promises to repay them when demanded is fulfilling the function of an elemen-

tary bank of deposit, and this elementary form of banking is still to be seen at work in the shape of our savings banks.

It is extremely important to make quite clear at this stage precisely what the deposit banker pledges himself to do. He promises to pay back to the depositor, on demand (unless there is a specific understanding to the contrary), *the legal equivalent of what the depositor has paid in*. That is to say, if the depositor has paid in gold, the banker is under no obligation (except in special cases) to earmark the actual coins or bars, but can satisfy the requirements of the law if he pays out other coins or other bars, or even silver coins or silver bars, if the monetary laws of the country in question allow gold and silver, at a stated ratio, to be full discharge of a debt of any amount, or, as is usually said, to be full legal tender. Of course, even though the law may make two or more metals full discharge, it will usually pay the banker to give the particular metal desired by his customer, for reasons which will become apparent in a moment.

It would be a great mistake, however, to assume that banking has prospered because of the legal obligations resting on the banker. Banking cannot prosper without these obligations being, as a rule, met. But the basis of deposit, as of all other banking, lies in the confidence placed in the banker by the depositor, and this is first and foremost a matter of personal trust. It requires time before the banking habit becomes second nature to people, and although legal obligations contribute to maintaining this confidence, they cannot create it.

Once this confidence has been gained, certain very remarkable consequences follow.

1. The banker is absolved from the necessity of keeping on the premises the whole of the deposits brought to him. Just because people trust him, it will be extremely improbable that all the depositors will come for all their money at the same time. Therefore, provided people trust him and provided he can trust other people, he can use the funds deposited with him for loans to other people, retaining only such an amount as will suffice to meet day-to-day withdrawals—an amount he gets to know by experience—and a further amount to meet exceptional withdrawals, which he calls his reserve. He can therefore take on himself the task of granting cash on the spot by discounting bills of exchange—*i.e.*, giving the present value of a promise to pay money in future, which represents credit-granting by one merchant to another, and he thus becomes the pivot on which the whole system turns. The convenience of getting discounts and loans, as well as the convenience of a safe deposit for sums paid in, draws larger and larger numbers of clients into the banking net.

2. When this stage has been reached, a further development takes place. Since the banker has first gained the confidence of depositors, who became further attracted by the utility of advances, which they get because of the confidence of the banker in them, it is possible for the former still further to utilize the confidence reposed in him. So long as all advances are made by him in actual cash, his total loans are limited by the total cash at his disposal. But if, instead of advancing cash, *he advances his own promises to pay cash*, he can greatly extend the scope of his business. His liabilities will now include both his deposits and his promises to pay, while his assets include his cash deposits and his advances to his customers. Since his

promises to pay, so long as confidence in him remains unshaken, are accepted by his customers and the general public in the district (although there is no legal obligation on them to do so), he can still use a proportion of his cash holdings (which he gets through his customers' deposits) in loans to those people who happen to require cash. And from being merely a bank of deposit and discount, the bank has advanced to be a bank of issue as well.

Now it is obvious that there are advantages and disadvantages in this procedure. The great advantage of note issue as such is that it economizes the use of cash. But the temptation to issue more and more notes and keep less and less cash against them is great, and is made greater the longer the time that elapses before the notes are presented, a matter again connected with the credit of the issuer. And therefore, unrestricted note issue may mean unsafe note issue, and restricted note issue means smaller profits.

The experience of long years has shown that self-interest is not sufficient to prevent an unrestricted note issue from resulting in almost certain disaster. That certainly was the experience of England in the eighteenth century and the result is that in this country the reaction went perhaps too far in the opposite direction. As a consequence, the opportunity was given for the development of that form of bankers' money with which the general question of bank credit is usually confused—the cheque against a loan.

The underlying principle of the cheque currency is as simple as its enormous extension is obvious. We have already seen that the first requisite for the development of a banking system is confidence in the banker. Now, if many people have deposits with a bank, it is simpler

for them to transfer sums from one account to another by means of an order to the banker so to transfer them, than it is to go to the bank, draw the money, pay the money over to the recipient, who pays it into the bank again. What is the consequence of this? Simply that the total liabilities of the bank remain what they were before, but that A has now £500 more to his account and B has £500 less. And when it is a question of granting a loan, since people have become used to receiving orders on a bank instead of the cash, the banker, instead of advancing the sum in cash down, gives the loan in the shape of a right to draw these orders on him up to a certain total amount, or, to use the jargon of the market-place, grants an overdraft to his customer and the right to draw cheques. The banker might have given the loan in the shape of notes. Then his liabilities—if the loan were for £500—would have been increased by an additional note issue of £500. As it is, he grants an overdraft for £500. The result is, *that so long as the loan is not repaid*, his deposits are increased by £500. For the cheques drawn against the loan are paid in to the accounts of the other depositors, diminishing the loanee's account to that extent and increasing that of his creditors, whilst, when his debtors pay him, his account increases by £500 and their accounts decrease by £500. Ultimately the loan is repaid by a cheque in favour of the bank for £500, and the whole business begins all over again, with someone else or even with the same man.

It is essential to remember that the obligations incurred by the banker in this last development are similar to those incurred at the previous stages. Just as surplus cash placed for safeguard with a banker is repayable at sight, so is the banker's note, and so is the

cheque. The note is a promise issued by the banker to pay at sight, the cheque is an order to the banker to pay at sight. Both involve the keeping of a store of legal tender sufficient to meet all demands that may be made for payment in cash. The fact that an infinitely small amount of the total liabilities only are met by cash payments does not in the least absolve the banker from his legal obligation.

What are the advantages of the cheque over the note?

The first is that the cheque does not enter into the monetary circulation as easily as the note does. This is due partly to the fact that it is made out for odd amounts (which is one of its merits from another point of view), but mainly because the recipient of the cheque, unless he knows something about the position of the drawer of it, is unwilling to accept it. The usefulness of the cheque is greatest when there are a large number of banking accounts, because transactions between these become more and more a matter of book-keeping. A cheque when it is made payable through another bank by being "crossed" is a safer instrument of payment than a note, which can easily be lost. Finally, a cheque currency is more *elastic*, can be increased or decreased more easily, than a note circulation.

The cheque system is so much a matter of common experience that its position in the national economy is often overlooked. But by it (and this applies also to fiduciary* note issues) two enormously valuable functions are performed:

1. The cheque enables the trade and industry of the country to be conducted without the use of large masses of legal tender, which, in the case of gold-issuing coun-

* That is, a note issue not covered cent for cent by cash.

tries at any rate, would be a costly and largely unnecessary, as well as cumbersome, process. By means of cheque-transfers the payment of huge totals simply becomes a matter of book-keeping.

2. The credit system of which the cheque is the outward and visible symbol enables production to be more continuous and steadier than would otherwise be the case, and furthermore, through the agency of the banker, *a process of substitution occurs among business men tending constantly to eliminate the less successful and to strengthen the position of the more successful among them.* Because no business can now succeed without the aid of credit from the banks, the business which finds it easy to get credit prospers, and the business which finds it difficult to get credit is at a disadvantage. It follows that the banker is before everything else a judge of men. On his estimate of men depends not merely his chance of profit, but also the decision as to what the type of industrial leader will be: and upon that estimate manifestly turns the economic destiny of the nation.

II.—THE ENGLISH BANKING SYSTEM.

When one turns to the structure of the English banking system as it stands to-day, it is not easy to explain it without going into a great deal of economic and political history of which considerations of space forbid almost all mention.

The English system may be divided into three main parts, all interconnected, and therefore standing or falling together. It consists of (a) the Joint-Stock Deposit Bank, and the (few) remaining private banks of deposit, (b) Specialized Banks or Finance Institutions, and (c) the Bank of England.

(a) *The Joint-Stock Bank*.—The English banks of the eighteenth century were, with the exception of the Bank of England, small private firms with less than six partners, possessing only local influence. The English banks of the twentieth century are few in number, with branches in all parts of the country and of national importance. The explanation of the change from the one system to the other involves a slight sketch of English banking history.

The reason why the eighteenth-century bank was a partnership with less than six partners is connected with the attempt to safeguard the dominant position of the Bank of England by limiting the size of its competitors through legislation, forbidding a bank with more than this number of partners doing what was thought then to be essential to banking—issuing notes. The result was to delay the rise of joint-stock banking until the second decade of the nineteenth century, because it was not considered possible for banking to be conducted without note issue. The result was to prevent really strong banks from rising. The private bankers were, on the whole, careless of the principles which should safeguard note issues and contributed by their policy to the instability of economic life.*

Two events contributed powerfully to the development of the Joint-Stock Banks. The first was the severe limitation placed upon the issue of bank-notes as a result of the Bank Act of 1844. Sir Robert Peel and his supporters took the view that unrestricted note issues were primarily responsible for commercial crises. The Act of 1844, to which reference will again be made in connection with the Bank of England, prohibited any new banks of issue being founded,

* See Andréades, *History of the Bank of England*, p. 171.

severely restricted the issues of existing note-banks, and therefore indirectly contributed to the extension of cheque banking. As it provided that a note-issuing bank amalgamating with a non-issuing bank must relinquish its issue, it gave an additional blow to the older methods of banking.

A still more powerful impulse to the joint-stock principle was given by the extension to banks of the principle of limited liability. This allowed them to appeal to the investing public more freely, since people knew that by investing £100 they would not be liable for more than that amount.

Favourable conditions were thus present for competition with the private banks, but the most significant fact has yet to be mentioned. This was the enormous demand for credit facilities which the development of English trade and commerce gave rise to, and without which the development of joint-stock banking could not have been so rapid. Conversely, had it not been for the development of deposit loans, English industry and commerce would have been checked, for the assistance the private bankers were capable of was now limited by the operation of the Bank Charter Act. Industry grew by the help afforded by the banks, the banks grew by the demands from, and the support given to, industry and trade.

When we turn to the structure of the system, there are several points of great significance. The English Joint-Stock Banks show great concentration in the control of capital and deposits by a relatively few firms, but they also show great decentralization of operations in the number of separate banking establishments maintained by each firm. Thus, Mr. Pownall quotes figures showing that while twenty banks out of a total

of sixty-three control £728,000,000 out of a total of £859,000,000 of deposits, yet these twenty maintain between them 5,771 offices.*

(b) *The Special Groups*.—The institutions about to be described are important for two very different sets of reasons. They consist of the foreign and colonial banks, the acceptance and discount houses, and the Stock Exchange.

Their function is to carry out certain specialized operations of great importance. The foreign and colonial banks, and the acceptance and discount houses, represent the financial institutions upon which the machinery of international payments depends. Enormous sums are annually payable to and from the United Kingdom, and, owing to the fact that London is the only financial centre in the world where the universal medium of cash payments—gold—can be got freely in normal times, in addition to our own payments and receipts, a great mass of payments between foreign countries are also settled through London. The particular instrument chosen is the bill of exchange, and the bill of exchange is largely the *raison d'être* of the colonial and foreign banks, and entirely so for the acceptance and discount houses. In essence the matter is extremely simple. A bill of exchange is a promise to pay money at some future date, and the value of the promise obviously depends on the standing of the individual who makes it. In order to make the promise as valuable as possible, a system has developed of getting the bills “accepted” by banks and accepting houses—i.e., these institutions promise to pay the bill when it falls due, receiving the funds with which to pay it from their customers at

* G. H. Pownall, *English Banking*, 1914, p. 21.

home or abroad, their customers being either merchants or other banks. The advantage of this system lies in the fact that a bill so accepted carries on the face of it a promise by a firm of established means and reputation. Any buyer of the bill will give better terms for it because he knows that in all human probability the bill will be paid when it falls due. It follows, however, that the accepting house runs the risk of not getting its customer to provide the funds to pay the bill. This risk is not a great one in normal times, otherwise there would hardly be a large development of the principle. But if anything arises to make payment specially difficult, *then the acceptance houses may be faced with the necessity of paying the whole of their bills themselves.*

Who are the holders of these accepted bills? We have already seen that the granter of credit can throw the risk on to other shoulders if he can find someone else prepared to buy his bills. Now, in the case of accepted bills, the risk of non-payment is so small that the holder can nearly always dispose of the bill—i.e., “discount” it. He does this by selling it to a discount house, which gives him its present value according to the current rate of discount. Now, this current rate measures in the first instance the relations between the quantity of bills offered for discount at any one time and the quantity of cash available for discount purposes. And here the second important point as regards these specialized institutions comes in. The discount houses pay the holder of a bill by means of a cheque on a Joint-Stock Bank, *and that cheque represents in ninety-nine cases out of a hundred a loan from the bank to the discount house.* The banks, in consideration of being able to call back their loans at

short notice, lend to the bill-brokers* at specially favourable rates, and the rate of discount depends, not merely on the quantity of bills coming forward for discount, but on the amounts which the Joint-Stock Banks are willing to lend. The cheaper the money—*i.e.*, the deposit loans granted by the banks—the cheaper the rate at which bills will be discounted, because the profit of the discounters comes in the first instance from the difference between the discount rate and the loan rate. And the banks lend to the bill-brokers at cheap rates in normal times because, as they can call in their funds at short notice, these loans represent a liquid asset which represents a first line of defence against a run by their customers on them. But if anything happens to the bill discounters, what then? The answer is found in the fact that in normal times, when the banks call in funds from the bill-brokers, the latter borrow from the Bank of England. It ought also to be mentioned here that as bills of exchange are a very liquid and safe investment, the Joint-Stock Banks are large buyers of them, and are thus directly, as well as indirectly, interested in the concerns of the bill market.

The Stock Exchange, again, represents that institution which specializes in the purchase and sale of securities, representing property in concrete things such as railways or mines, or such intangible property as the part ownership of Government debts. Part of such purchases and sale is for investment—that is, people buy securities for the yearly income yielded; but the great mass of transactions are speculative—that is, people buy or sell at one price, in the hope of

* The somewhat vague term by which the various classes of dealers in bills of exchange are collectively known.

selling or buying at a different price. By this means the market in securities is a free one—that is, just because purchases and sales are always going on, if people want to buy or sell, there is always a market in which they can buy. Speculators, however, are not always in a position to pay with their own money. How is the position managed? They pledge their securities to the Joint-Stock Banks and pay by means of a cheque. This is the *loan on collateral security*, which the banks grant because it is for short periods (sometimes only for twenty-four or forty-eight hours), and because it is backed by a readily saleable security, and therefore again represents a first line of defence against withdrawals by customers. And just as the banks are interested directly and indirectly in the bill market, they are interested directly and indirectly in the Stock Exchange—since, in addition to loans to the Stock Exchange, they hold securities which they can only sell *in the Stock Exchange if it is in working order*.

And so the Joint-Stock Banks, as well as being interested in the ordinary business of the country, are also vitally interested in certain special institutions, carrying out work of enormous importance to the economic well-being of the country. And the whole of the transactions, which are carried on by means of cheque-transfers, are ultimately payable in legal tender. Is there, then, any institution upon which the special responsibility of maintaining an adequate store of legal tender is thrown, or is this responsibility one which each institution faces for itself? To answer this question one must examine the functions of the Bank of England, to which we now turn.

(c) *The Bank of England*.—The strength of the Bank of England is derived from the fact that the English

banking system is based on the principle of the central reserve—that is, one institution is responsible for the maintenance of the basis of credit. And it is as well here to point out that the “basis of credit” is a somewhat ambiguous phrase. To the ordinary person the basis of credit is gold. Now, from one point of view this is undoubtedly the case; but, from another point of view, the basis of credit is not necessarily gold at all—but legal tender. These two things are not synonymous terms at all. It is true that gold sovereigns to any amount are legal tender; it is not in the least true that legal tender to any amount must be gold. Legal tender is an attribute by which a particular medium of exchange is made full discharge of a debt, but is an attribute which may be, and is, possessed by media other than gold. And therefore, although legal arrangements in ordinary times secure that legal tender shall, as far as possible, be the same thing as gold, because the one form shall always be convertible into the other, the two things are distinct, and this distinction may have very important consequences.

Two tendencies are responsible for the central reserve system as we know it. The first is the theoretical line of thought which culminated in the Bank Act of 1844, and which made the Bank of England note practically a gold certificate by providing that any notes issued in excess of a fixed sum of £14,000,000, together with a further amount representing two-thirds of the lapsed issues of private bankers taken over by the Bank of England, should be backed by an equivalent amount of bullion—of which total amount of bullion silver should never be more than one-fourth the amount of gold, which in practice has meant of recent years an exclusively one-metal reserve. By this the note of the Bank

became equivalent to so much gold, and the right to draw notes gave the right to draw gold.

The second tendency responsible was the growth of the bankers' balances at the Bank of England. As each bank holds cheques paid in by other banks, and as its own cheques are similarly presented to it by other banks, an organization known as the Clearing House is required for the purpose of determining how much each bank either owes or is owed by all the other banks. Settlements between the Clearing House bankers take place by means of transfers in the books of the Bank of England, thus obviating the use of cash and also making it necessary for each bank to keep an account at the Bank of England. As in any case an account has to be kept, and as the right to get notes from the Bank is equivalent to drawing gold, the banks keep their spare funds at the Bank, and whenever they anticipate troublous times, they increase their holdings at the Bank of England by getting the Bank to grant them loans on collateral security and in other ways. Therefore an increase in the deposits of the Joint-Stock Banks at the Bank of England is a sign of increased tension.

How can we know that this is the case? * Unfortunately the weekly statement published by the Bank of England does not separate the Joint-Stock Bank accounts from its other non-Government deposits, but lumps them all under " Other Deposits " in that part of the return dealing with banking business. But, still, we have a fairly clear idea as to what happens when " Other Deposits " increase.

(a) Either the banks borrow directly, in which case the assets held under " Other Securities " increase; or
(b) they withdraw funds from stockbrokers and bill-

* See p. 273 for detailed statement of Bank of England.

brokers, who are forced to the Bank for assistance. As the latter pay their loans to the Joint-Stock Banks by means of cheques on the Bank of England, which the banks pay into their accounts, the net result is to decrease the broker's balances and to increase the banker's balances, *while the total increase in the Other Deposits remains the same.*

The position of the Bank of England as the keeper of the final basis of credit is assisted at times by the fact that it keeps the Government accounts. These form the "Public Deposits" of the Bank's weekly statement. Whenever the taxes are being paid, the balances at the disposal of the Government in the Bank of England are increased, while the balances of the Joint-Stock Banks probably decrease by almost the same extent, since income tax is paid by cheque on a Joint-Stock Bank. Hence when the Public Deposits increase, in consequence of income-tax payments, Other Deposits fall, and this reduces the power of the banks outside the Bank of England to lend.

But why should this check ever be desirable? It is desirable at times because when increased lending takes the form of loans or discounts to firms or individuals at a time when gold is leaving the country in consequence of an adverse state of the Exchanges—which simply means that it is cheaper to pay debts abroad in gold than by any other means—it is extremely undesirable that the total liabilities which the Bank may have to meet in gold ultimately should be any further increased. And whenever there is any danger of this drain of gold continuing—*i.e.*, when the proportion between the banking liabilities and the "reserve"—the notes and coin on the Banking Department*—declines, the Bank

* See Bank Return below, p. 273.

attempts to protect itself by raising the rate at which it will lend money, or the right to draw a cheque. But it may take time before the rate is effective, and whenever it appears to the Bank that its control over the money market is not attained sufficiently rapidly, it strengthens its hold by borrowing from the Joint-Stock Banks on the security of Consols. This reduces the balances of the Joint-Stock Banks at the Bank of England, and therefore affects their ability to lend.

We may conclude this section by giving the Bank of England's statement for the date just before the European crisis, the effect of which on the banking and credit system has now to be investigated.

BANK OF ENGLAND: WEEKLY ACCOUNT.

An Account pursuant to the Act 7th and 8th Victoria, cap. 32,
for the week ended Wednesday, July 15, 1914.

Issue Department.

Notes issued	..	£56,908,235	Government Debt	£11,015,100
			Other Securities	.. 7,434,900
			Gold Coin and Bul-	
			lion	.. .. 38,458,235
		<hr/>		<hr/>
		£56,908,235		£56,908,235

Banking Department.

Proprietors' Capital	£14,553,000	Government Securities	.. .. £11,005,126
Rest	.. .. 3,431,484	Other Securities	.. 33,623,288
Public Deposits	.. 13,318,714	Notes	.. .. 27,592,980
Other Deposits	.. 42,485,605	Gold and Silver Coin	1,596,419
Seven Day and other			
Bills	.. .. 29,010		
	<hr/>		<hr/>
	£73,817,813		£73,817,813

From this it will be easier to follow the previous remarks as to the effects of movements in the deposits on the proportion of reserve to liabilities. It only

remains to point out that the separation of the business of banking from that of note issue was made obligatory by the Act of 1844. But as in ordinary times advances take the form of the right to draw a cheque—*i.e.*, involves an increase in the Other Deposits—such advances only affect the proportion between Deposits and the Notes and Coin in the Banking Department. It is only when the necessity arises for an increase in the quantity of legal tender required that the form of the return darkens counsel. For in that case the notes in the Banking Department may be in excess of the stock of coin and bullion in the Issue Department (although such a huge increase is not likely); for in times of crisis the provisions of the Bank Act may be suspended, and notes issued against securities in excess of the statutory maximum.

III.—THE OUTBREAK OF THE EUROPEAN WAR.

The story of August, 1914, is now an oft-told tale, and it is given here in outline mainly to throw light on the problems subsequently to be discussed. The difficulties to be faced were threefold.

Firstly, the Joint-Stock Banks were faced with the possibility that large demands might be made upon them for immediate repayment in gold or other legal tender of the deposits they held. That was in the main a matter of internal trouble, but of course a failure to meet it might very well have had the gravest consequences.

Secondly, the banks found that those institutions dealing especially with the machinery of foreign payments were in a very difficult position, owing to the situation in the shipping world, and the prevalent confusion. The accepting houses were faced with the

prospect of having to meet a considerable fraction of the bills which they had accepted, not by funds furnished by their clients, but by funds furnished by themselves. These bills were partly held by the banks as liquid assets which in case of need could be convertible into cash, and partly held by the bill-discounters, to whom the banks had lent many millions; again, because they had the right to call for their money at very short notice.

Thirdly, there was the Stock Exchange situation. As already noted, the banks also advanced funds on the strength of securities, which they could sell if the loan were not repaid, and in addition, they held securities on their own account. The declaration of war on the Continent had made it impossible for foreign purchasers of securities on the London Stock Exchange to meet their engagements. The result was the failure of some reputable firms, the prospect of a further chain of consequential failures, and the certainty that, with the Continental Exchanges shut, the prices of all securities would fall through panic sales from abroad, and the impossibility, therefore, that the banks could realize their securities except at ruinous sacrifice, even if they could be realized at all.

The principles upon which a crisis should be met had become crystallized by experience into a few very simple maxims. In the first place, it is an aggravation of a crisis for funds to be suddenly drawn in. Secondly, that it is the duty of the Bank of England to assume control of the machine and to lend freely to solvent institutions. Thirdly, that it is the duty of Government to assist the Bank, if necessary, by extending its right to issue legal tender notes, without an equivalent holding of gold in its vaults—*i.e.*, to suspend the operation of the Bank Charter Act.

The remedial measures taken fall roughly into two groups:*

1. The postponement of obligations and the provision of an emergency currency.

2. The re-establishment of normal conditions by conversion of market obligations into credits at the Bank of England, and the provision of guaranteed credit facilities.

The postponement of obligations is, of course, only a method of gaining time, and is open to serious objection on the ground that it destroys the willingness and ability of lenders to make new loans. Moreover, any check to the liquidity of payment at a point A in the whole field of contractual obligation, involves a similar inability at points B, C, and D, and thus ossifies the whole credit field. The moratorium thus began by postponing the payment of bills of exchange, and from thence led to a postponement of the obligation to repay "any bill of exchange (being a cheque or bill on demand)," which thus rendered bank deposits immobile for the time being; and a similar state of immobility characterized the obligation to meet liabilities contracted by purchases and sales of securities on the Stock Exchange, again leading to a locking-up of Stock Exchange Loans. At the same time, the provision of an emergency currency in the shape of Treasury Notes, and the suspension of legal limitations on the power to issue notes above certain maxima without an increase of the store of coin and bullion held, which was the object of the Currency

* The publication of a special Financial Edition of the *Manual of Emergency Legislation* in June, 1915, at the low price of 1s. obviates the necessity for more than an explanation of the principles involved. Readers are strongly urged to obtain this work—excellently arranged and indispensable to serious study.

and Bank Notes Act, made in the opposite direction, and was, of course, intended to provide for the contingency of a run on the deposits of the Joint-Stock and the Savings Banks—a run which, thanks to the good sense of the public, can hardly be said to have been more than a possibility. The notes were a loan by the Government to the Banks. The amounts of such loans outstanding rapidly decreased as the banks regained confidence, although the amount of notes in circulation has been steadily advancing in amount.*

When it became a question of setting the machine in motion again, a different step was taken. It would have been possible to advance Treasury Notes in large amounts to debtors; thus converting their debts into obligations to the State, their creditors (banks in most cases) using the notes thus received as reserve, or for further loans as soon as the situation demanded such a policy. The credit system of the country would thus have reverted to the note-issuing stage from which it emerged in the middle decades of the nineteenth century. The solution actually resolved on was the conversion of debts to the Joint-Stock Banks into debts to the Bank of England, which was given a guarantee of final repayment by the Government War Obligations Act. The policy was, it must be confessed, somewhat halting. The Bank first rediscounted bills for the holders. This released the weight pressing on joint-stock bankers and bill-discounters. It then advanced the sums necessary to meet bills to the acceptors of them; that is, it virtually paid the bills itself. Finally, to set the machine going again, acceptors were encouraged to accept new bills by a promise that the Joint-Stock Banks, "with the co-operation, if necessary, of

* See chart in Appendix.

the Bank of England," would advance to clients the amounts necessary to pay their acceptances at maturity.* Somewhat similar arrangements were made to advance sums to liquidate Stock Exchange loans, and, although shorn of much of its machinery of free bargaining, the Stock Exchange reopened on January 4, 1915.

What was the net effect of these arrangements? They provide an interesting illustration of the mechanics of the money market.

In so far as the Bank rediscounted bills of exchange held by bankers and discounters, the effect was to increase the balances of these institutions at the Bank. But the bill-brokers owed large sums to the banks, which they could not repay before their assets were made liquid again. Hence a process of transference began, by which the balances of the banks increased and that of the brokers diminished, whilst the total increase remained unchanged. As we have already seen, money at the Bank is regarded by the bankers as reserve, since it gives them the right to draw on the gold-store of the Bank. The effect of the whole movement is reflected in the chart of Money-at-Call, etc., in the Appendix. As an increase in reserve stimulates banks to lend more freely, we may associate some part in the increase of aggregate deposits, as shown in the Appendix, with this fact.† On the one hand a mere

* Treasury Statement of September 5, 1914.

† How much, it is difficult to say. Since the aggregate balance sheet in the Appendix includes the deposits of the Bank of England, we must not ascribe the total increase in deposits to fresh loans by Joint-Stock Banks, but only such part as is not due to increases in loans by the Bank itself. Since, however, part of the increase of the Bank's deposits is due to a decline of the deposits of the Joint-Stock Banks, through payments to Government, the final result is difficult to determine.

matter of arithmetic, this whole process is, on the other, an illustration of the foundations of the credit system as such—mutual trust in the borrower by the lender, and in the lender by the borrower.

Something must here be said of the result of War Loans on the banking situation. Apart from the direct advances by the Bank to the Government, of which we have unfortunately but little record,* the position has been such as to increase the power of the Bank of England over the money market, for the Bank keeps the Government balances, and by the pressure of loans and taxes the average daily balance kept by the Government has increased greatly. This involves a corresponding diminution in the unemployed funds of the banks, although there is a flow of funds from the Government balance through its creditors back to the Joint-Stock Banks, which makes the net effect of Government borrowing less than it would otherwise be. Since, however, the unspent balance of the Government must necessarily be large, and since investment in Exchequer Bonds and Treasury Bills now lock up funds which in normal times would have remained to a much larger extent on deposit with the Joint-Stock Banks, we may safely conclude that on the whole the relative position of the Bank of England has been strengthened. A situation has arisen analogous to the effect produced on the market when the Bank deliberately borrows funds from the banks in order to make its control effective.

How necessary such increased control by the Bank is in a time of war need not be emphasized. It is not too

* The amounts so far repaid are given by *The Times* of April 3, 1916, as shown by the final accounts of the Treasury for 1915-16, at £160,427,000, and by the speech on the Vote of Credit of February 21, 1916, at £168,900,000. I am indebted to Professor H. S. Foxwell for these references.

much to say that the vast interests of the Empire, on their financial side, pivot on the Bank and on its store of gold. The internal situation was saved by the obligations which the Bank undertook at a time when no man could say what the morrow might bring forth. Space forbids any mention of the difficulties of the external situation. But the solution of that problem depended and depends on the gold reserve of the Bank to a much greater extent than is the case at home. So long as people trust, gold for internal purposes can be dispensed with, but that is not so with the Exchanges. On all points, therefore, the strengthened position of the Bank of England is to be welcomed.

IV.—THE FUTURE OF THE CREDIT SYSTEM.

We come now to that portion of this chapter which will attempt a critical survey of the value of banking services to national welfare in general, on the one hand, and of suggested reform projects, on the other. And it is important to begin by considering the question whether a complete alteration of the banking system is required, or whether reform is to proceed within the already existing framework of institutions.

One preliminary statement is requisite in this connection. Whatever the value of the services performed by the banker, it is essential to realize that credit creation is not wealth creation. The existence of aggregate deposits of £1,000,000,000 no more indicates the existence of that amount of "capital" or "wealth" than a doubling of the figures of the national income necessarily indicates a doubling of the goods and services constituting the real national sources of material welfare. To the present writer it appears that many of the

plans of general reform put forward rest upon a confusion between credit and wealth—between a particular form of purchasing power and the actual sources of productivity which this purchasing power enables to be transferred more easily and to be created more steadily.

Any attempted plan of reform, therefore, which starts from the assertion that “capital” could be created more easily by means of Government notes secured upon the accumulated products of past activity, begins with a misapplication of language which is likely to have dangerous consequences—consequences which experience has more than once revealed. The same may be said of any plan which proposes to free credit creation from any association with a store of gold, on the ground that credit creation is monopolized by such association. The result of such indiscriminate creation of credit is simple. Since what is created is not wealth, but purchasing power, the inevitable consequence would be a rise in prices—a rise proportionate to the extent of credit inflation.

If this is the case, it may be asked, Where does the superiority of our present system of creation of credit come in? If an increase of credit tends to raise prices, why is the proposed system worse than the present one? The answer is not difficult. The difference between the two systems is one of degree. The policy pursued by bankers is likely to be much more cautious—resting, as it does, upon the basis of both personal confidence and self-interest, impelling them to have regard to the saleability of assets and the state of the reserve—than would be the policy of a State loan office, bound, as the latter would be, to adopt a somewhat lax policy as to the recipients of its notes or the terms upon which it would grant them. The advocates of such a step are faced

with the trilemma: (1) to condemn the present system as dangerously lax, and therefore *ipso facto* to condemn their still more lax policy; or (2) to condemn the present system as monopolistic because too hidebound and cautious, in which case the difference between the present and future is clearly displayed (to the detriment, in view of the above considerations, of their own scheme); or (3) to propose a system of safeguards analogous to those observed at present, in which case the scheme is merely a variation of the present banking system, possessing less of its elasticity and more liable to abuse.*

Quite on a different basis is the argument that the creation of credit—whatever its quantitative amount, and however safeguarded by the universal maxims of banking experience—should be a State monopoly, the profits of which should accrue to the community as a whole. In principle, there is no definite objection which can be urged against a proposal of this character: it is a matter solely of expediency—of time, place, and circumstances. The pressure of events has certainly made a closer interest in banking affairs imperative on all Governments, and so far as the theory of the subject goes, there is now no obstacle at all to adding the banking profession to the already very miscellaneous activities of the Civil Service. Nevertheless, a proposal of this sort requires extreme caution. What evidence is

* It may further be pointed out that it is not assumed that loss of confidence will ensue in these State notes—at any rate, for an appreciable time. They may be taken quite freely at their face value. Nevertheless, complaints would be rife as to rises in price, due to falls in the purchasing power of the notes. This would stimulate a further issue of notes, and a vicious circle would be created, which could only be broken by a withdrawal of notes and the inauguration of a policy of caution—provided a serious panic did not precipitate matters.

there that the service as a whole would be better managed by the State than it is now? The assumption of the infallibility of Government servants is surely dead, and the certainty that the banking service would be made a matter of party political discussion is by no means a reassuring prospect. Party animosity has killed flourishing State institutions before now, and a state of things in which one party deliberately creates distrust of a banking system because its opponents are temporarily in office, perhaps thereby provoking a series of catastrophes, is one that the present writer, at least, is not desirous of encouraging. Apart from this point, if it is urged—as it very often is—that banking institutions are far too unwieldy and centralized as things are, it is difficult to see how further rigidity and decreasing elasticity are to be avoided under monopoly. These arguments are not conclusive, in any case, and certainly not as against particular State institutions; but, at any rate, they show that the complete nationalization of banking is not the simple matter it is sometimes assumed to be.

Leaving these broader problems, therefore, as not of immediate practical significance, attention must be drawn to the possibility of particular reforms. The banking world was saved from disaster, it may be argued, by the intervention of Government, and this gives the latter the right to demand other and safer conditions in the future, as well as the right to insist upon the performance of services unduly neglected in the past.

The Achilles heel of the British banking system is its inadequate reserve of gold. London, the international clearing house, conducts its business on a smaller gold basis than any other great financial centre. Such a

situation imposes on the Bank of England the necessity of a fluctuating and relatively high bank-rate, and makes the money market liable to extreme weakness at a time of crisis. It is useless to urge that the process of creating bank-notes or extra currency notes at a time of emergency meets the problem. It does, indeed, solve the problem of an internal panic, so long as the notes are taken unquestioned, but since such a procedure tends to encourage the exportation of gold, by throwing out of circulation some of the gold formerly in use, it is not a solution adequate to all aspects of the situation.

One of the lines of defence advanced in the past has also been shown to be fallacious by the events of the war. It has been argued that in times of stress bankers can strengthen their position by withdrawing short loans from bill-brokers and the Stock Exchange, increase their deposits at the Bank of England, and thus strengthen their grip on the Bank's reserve of gold. Now, the War has shown that this practice is impossible as soon as the position makes it impossible for brokers and others to repay. Moreover, even supposing it were possible for them to repay advances without increasing the demand for loans elsewhere, such repayment would not decrease the aggregate liabilities of the banks taken together, for liabilities by the brokers to the banks are simply converted into liabilities due by and to the Bank of England. This, of course, eases the situation for the Joint-Stock Banks, but it leaves the question of the proportion of gold reserve to total liabilities exactly where it was before.

The problem, then, in its broadest form is to increase the aggregate gold reserve against aggregate liabilities. Before proceeding to discuss how this could be done, it is necessary to push our analysis a little further. Dan-

gerous as the dependence of the entire financial structure on the reserve of the Bank of England has been, it is essential to realize that it had the good effect of concentrating both power and responsibility in the same place. The central reserve system, in other words, left the Bank of England in a position of great strength and authority, and since in a crisis single-minded leadership is an enormous advantage, any scheme of reform must avoid creating new difficulties in the effort of solving old ones. In other words, the solution of the gold reserve problem must not take the form of decentralizing control by the creation of secondary reserves beyond the control of the Bank of England. What is wanted is to bring home to all parties a sense of responsibility, and at the same time to maintain unbroken the principle of a central store of gold. How, then, is this to be done? Until the War, the actual measures taken to maintain an adequate store of gold were those of the Bank of England. There are two other parties whose interest in the scheme is vital. These are the Government and the great Joint-Stock Banks. What is wanted, therefore, is a plan by which all three shall contribute to maintain an adequate reserve. Only if all three parties contribute can any case be justly urged on behalf of either Government or Joint-Stock Banks for participation in the control of this jointly accumulated reserve fund.

Now, there is already in existence a body representative of the leading Joint-Stock Banks, which might easily be made representative of the banks as a whole. That is the Committee of the Clearing House Association, which manages the affairs of the Bankers' Clearing House, which has already brought about a much-needed uniformity of deposit rates, and which was considering

this very question of gold reserves at the time of the outbreak of war. The growing centralization of English banking and the possibility of co-option gives this important Committee the right to be considered as the body representing the Bankers in any scheme of reform.

There remains the Government. Its right to representation rests on a threefold basis: (1) Its guarantee was required for putting an end to the crisis of August, 1914. (2) It is itself interested in an adequate gold reserve through its management of the Post Office Savings Bank and its guarantee of the Trustee Savings Banks. (3) It now issues an important part of the circulating medium—the legal tender currency note—and holds a large store of gold, nearly £30,000,000, as a reserve against its liabilities on this account.

The proposed scheme, therefore, would throw on the Clearing House Association, the Treasury, and the Bank of England, the obligation to maintain a central reserve against the united banking liabilities of the nation. But where is the gold to come from? Here the situation has been greatly changed since the beginning of the War. *By far the greater part of the gold circulation has been displaced, and has come into the hands of bankers and the Treasury, and it is on this basis that the question can now be solved.*

But if it is to be solved, one sacrifice the public as a whole must be prepared to make. The use of gold as a medium of exchange in internal transactions must be strictly economized. There seems no reason why this should not be possible. Prejudice against the Treasury Note, if it ever existed, has disappeared, and it should be made clear that the use of gold as currency involves considerable wastage and expense without bringing any corresponding advantage. Such coin as is required can

be met by the continued circulation of silver, which would at once bring in a profit to the Government and save a quite unnecessary wastage of gold.*

One further point requires mention in this connection: that is, the more frequent publication of accounts. It should be remembered that no conceivable form of balance sheet is an efficient substitute for sound banking practice; and, indeed, it can be argued with some force that compulsory publication of general results alters the qualitative character of some of the details for the worse. Nevertheless, there is no reason to doubt that substantial additions to our knowledge of what is happening would result from a more frequent and more general publication of banking accounts, and this reform might well take place in connection with the first, as a subsidiary, but still useful, line of defence against unsound conditions.

Politically, another measure is sometimes advanced: that is, the complete prohibition of banks of enemy origin obtaining a foothold in the London market. However desirable this may be as a measure of political retaliation, one may be permitted to question its utility on economic grounds. If thereby German industries can obtain the facilities of the London market, it is also true that a useful purchaser of English bills for reserve purposes would be excluded.† At the same time, really to exclude German transactions, vexatious interferences would have to be made upon dealings with such centres as Amsterdam and New York, so that in the end the

* I may, perhaps, be allowed to refer to my article in the June number of the *Clare Market Review* for further elaboration of these points.

† This seems to be the point that especially attracted the late Viscount Goschen as one of the advantages of an international position.

result might well be to encourage these centres at the expense of London—not, to my mind, a desirable state of things.

We come now to the relations of the banking world to the economic future of the nation. Here again it is best to separate the questions of immediate urgency from those of more permanent importance.

The question which will be of immediate urgency upon the conclusion of peace will be the reorganization of economic conditions from a war to a peace basis. At the moment the demand for commodities is concentrated to an enormous extent in the hands of the belligerent Governments. The conclusion of peace involves the readjustment of relations between producers and purchasers—*i.e.*, a hunt for markets. How far can the banking organization assist in this process?

It must be understood thoroughly that sound conditions can only be established upon the basis of exchange of commodities and services—*i.e.*, upon the real needs of the world. But such re-establishment may take some time, and meanwhile there will be masses of men waiting to be reintroduced into civil life. It may, therefore, be a question how far production should be re-established upon a credit basis—*i.e.*, how far producers ought to be guaranteed “working capital” in order that production should not need to wait for the slow revival of general demand.

It is obvious that such credit can be advanced by the banks, for this is the task which they are ordinarily engaged in. But the situation presents unusual features and the policy of the banks must be influenced by the need already pointed out of strengthening their own position. Now, indiscriminate credit granting will increase their aggregate liabilities, and so leave the

relative position of reserves to liabilities no better than it was. Further, such granting of credit may leave prices at an unduly high level, thus making it difficult to sell in competition with neutrals and actually postponing the establishment of normal conditions.

The position, therefore, is far from simple. Again, the banks will require some guarantee of ultimate repayment. This will throw upon the Government the difficult task of deciding whether or not to assist the business community, and this means, of course, that the taxpayer is finally taking the risk. Hence any expedient adopted must be coupled with such restrictive conditions—such as a relatively high rate of interest—as will provide for a reserve fund and at the same time make manufacturers desirous of dispensing with such aid as soon as possible. Otherwise the burden may prove too heavy even for the broad shoulders of the British taxpayer.

But this, after all, is a “short-run” problem. What of the reorganization required to meet the needs of the more distant future? It is with regard to this region of our subject that speculation and suggestion is most active. At least three lines of inquiry are opened up in this connection.

(a) Banking and the Supply of Long-Term Credit.

The amazing progress of German industry has drawn attention to the part played by the German credit banks in assisting industry by the supply of credit not repayable in short periods, but virtually only repayable over years. The suggestion is made that English bankers have not been willing to take the risks thus assumed by German banks, and hence that the English manufacturer has suffered from lack of financial aid in the

struggle for markets. It is further urged that this mistaken attitude must be dropped for the future, and a vigorous policy of assistance taken up by the great Joint-Stock Banks.

Before discussing the desirability of such a policy, it will be well to investigate what objections the apologists of the English system raise against it, and also to examine more closely what the attitude of German writers on the point actually is.

The points raised by English bankers—such as, for instance, Sir Edward Holden, the Managing Director of the London City and Midland Bank—are perfectly definite. The first duty of a banker is to safeguard his customer's right to withdraw his deposit at a moment's notice. This imposes on the banker a strict limitation as to the choice of investments, for his investments must be such as are either readily saleable—Government and other “gilt-edged” investments—or such as can be easily withdrawn—*e.g.*, loans to bill-brokers and other short-term borrowers—or automatically liquidate in a short period of time—*e.g.*, the best or “prime” bills of exchange. Further, the ratio of capital to deposits is and must be low; for the higher the proportion between capital and deposits, the lower the dividend of the bank must be, if a safe policy is pursued at the same time. But this imposes a further limitation on the choice of the bank, for the smaller the working capital, the less right there is to use any of it in directions where it is not easily realizable. Others would add that there is no evidence that manufacturers do lack facilities: that the enormous growth of English industry in the nineteenth century would have been impossible but for the assistance of the banking world, and that no case has been made out for transferring practices,

perhaps well enough suited for German conditions, into a totally different English environment. Moreover, since the risk involved in lending for long periods is greater than that involved in short-term loans, the adoption of such a policy would inevitably lead to the policy of discrimination, and the larger firms would be assisted at the expense of the smaller.

A good deal of this adverse criticism is, as a matter of fact, admitted by German writers on the subject. The form assumed by German banking was imposed on it by the lack of available capital at the beginning of the industrial era. Hence it was not possible to rely on the issue of Stock Exchange securities as was the case in England. Furthermore, it is pointed out that deposit liabilities are a smaller proportion of the total liabilities to outsiders, and the working capital of the banks is greater, thus giving them a freer choice of investments. Again, the duty of maintaining the liquidity of investments is not denied—is, indeed, emphasized—and the danger to the German banking system of a neglect of this point was raised more than once at the great Bank Inquiry of 1908-09. Moreover, the effect of the industrial credit policy in stimulating combination and thus decreasing competition among producers is fully admitted; and it is also recognized by Dr. Riesser, the author of the standard work on the German great banks, that “German credit banks have hitherto done little for the craftsmen and the small manufacturers and tradesmen, except when the banks have been closely connected with the co-operative credit societies.” On the whole, then, however enthusiastically the German policy may be upheld by German writers, they are prepared to admit the force of the points raised by the English critics in general.

The line of support adopted by them rests, on the whole, upon a different basis. The necessity for long-term credit is imposed by the fact that industrial needs are different from those of commerce, and a similar treatment of these two different economic fields is dangerous on two grounds: (1) The granting of short-term credit to industry results very often in a fictitious appearance of liquidity, but the banks find that they cannot really withdraw the facilities granted; (2) the granting of short-term credit "is in many respects far too costly for industry and often directly oppressive." Hence the need for a different mode of assistance, which essentially takes the form of undertaking to furnish capital, the bank receiving seats on the directorate of the firm assisted and throwing its liability on to the investing public in the form of the issuance of securities if the firm is successful. Hence this policy imposes on the banks the necessity for the employment of expert knowledge, and the assumption of risks borne in this country by company promoters and special investment agencies; the latter, indeed, are becoming also more and more a feature of German economic life. Though analysis of the conditions of industry reveals the necessity for differential treatment, yet, as Riesser points out, the lending of short-term credit to commerce is, generally speaking, less hazardous than the granting of industrial credit, because the nature of the security offered by industry is frequently unrealizable, and because of the granter's unfamiliarity with the technical conditions of the industry. This often leads to compulsory reorganization of a company or concern—it may be at an unfavourable time, when the bank must carry the bonds or shares, or risk its prestige by an unsuccessful or only partly successful issue of securities to the public.

What can be said, then, for the adoption of a similar policy in the United Kingdom? Firstly, as to the influence of such a policy on other aspects of the banking situation. Assuming that the reserve position is improved, it may be argued that a policy of long-term credit is reasonable, since the War has shown that the liquidity of short-term credits has been exaggerated and the merits of a larger store of gold deprecated because too much confidence was placed in the ability of the short-loan borrower to repay on demand. Secondly, the capitals of the English banks could be increased. It is true that this would reduce the available funds for investment purposes on the Stock Exchange, but if the banks were responsible for a larger volume of industrial investment, a more cautious régime might ensue and less waste of available funds would take place. Again, the tendency to amalgamation in industry is already present, and it may be necessary for national prosperity that the tendency should be encouraged. From this point of view, the problem is merely a quantitative one—*i.e.*, too much must not be invested either in the one direction or the other. Rather different is the qualitative aspect. Should special institutions undertake this work, acting as agents for the banks, who would subscribe the capital, and hold the shares, and merely delegate the task of expert supervision? Or should the Banks add this function to those they already carry out?*. If the policy is to be carried out at all, the plan of separate institutions seems to me preferable, in view of the lack of experience of English bankers in this connection, but the whole matter is one which requires

* See Mr. Forrester's letter in the *Economist* of April 22, 1916, in which such a joint scheme is proposed. For adverse criticism of such a proposed scheme for Germany, see Riesser, *German Great Banks*, p. 240 *et seq.*

more careful criticism than has yet been accorded it. The tendency in current discussion is for the industrialists to be ranged on one side, the bankers on the other, and that is a situation peculiarly liable to result in ill-balanced action.

(b) *Banking and Foreign Trade.*

The second point which it is suggested by critics of the present system requires examination is the relation of the banking world to overseas trade. Again, the German model is held up as worthy of imitation; the greater willingness to take risks which the German banker shows is responsible, it is argued, for the progress achieved by German industry in oversea markets. In his efforts to oust the rival trader, the German merchant is supported by the banks, whereas the conservatism of English banking acts as a brake.

It is impossible here to go into details as to the precise points in which German and English methods differ, but concentration on the question of risk-taking throws into the shade the point which in this connection really seems of great importance. This is the greater integration of German as compared with British banking, and the possibility therefore of united action with regard to every part of the field. The German great banks have joint interests in the oversea banks: the latter are linked up with the former, and the participation of more than one bank in the founding of these overseas enterprises eliminates waste and duplication of effort. The desirable policy in this connection would seem to be a more intimate connection between the existing home banks and the large and flourishing colonial banks already in existence, as well as the joint founding of new enterprises in regions as yet without

adequate banking institutions of British origin. By this means all aspects of economic life will react upon the prosperity of the banks; these will be enabled to see the whole problem as one, and there will be less excuse for the criticism that the banker fails in reconciling his interest with that of other sections of the community.

Reform in this connection calls, therefore, rather for a readjustment of relations between existing groups than for a complete reconstruction. There seems to be no necessity for the heroic measures proposed by the Association of Chambers of Commerce of the United Kingdom, which desires State aid "for facilitating the establishment of a large credit bank or banks, for the purpose of developing British trade abroad." A State institution would seem to be peculiarly unfitted for this particular task, and the problem of capital is by no means so important as method in connection with a forward policy.

(c) *Banking and the Democratic Polity.*

The problems so far discussed have the merit of definiteness. Whatever views may be held as to their correct solution, there is no danger of their being overlooked or of their general import being neglected. But quite otherwise is it when one turns to ask what, if any, rôle can be played by banking in the gradual trend towards more democratic institutions, which the War has indeed temporarily suspended, but whose advent it is ultimately likely to hasten?

The first and initial difficulty is a lack of general comprehension among large sections of the population of the vital importance of a banking system in facilitating and easing economic advance. It is the lack of this understanding which retards the efficient utilization of two

institutions of great and growing importance on the continent of Europe—the Co-operative Bank and the Post Office.

The general problems of rural reorganization are dealt with in another chapter in this volume. Here it is sufficient to draw attention to the fact that on the continent of Europe generally the maintenance of sound social conditions in rural areas has been enormously assisted by the development of the principles of co-operative credit.* But it would be a mistake to associate democratic banking with agriculture exclusively. "People's Banks" are an important feature in working-class life on the Continent from every point of view, and form an integral part of the general co-operative movement.

It may be asked why this aspect of co-operation lacks an equally important development in the United Kingdom. So far as agriculture is concerned, the reason is partly to be found in the fact that it is only in recent years that the small holdings movement has made important strides, whilst the large farmer has found the country banker and the manufacturer prepared to assist him: the workers in the towns, on the other hand, have developed a series of institutions—Trade Unions, Friendly Societies, and so on—which, together with the facilities offered by the Trustee and Post Office Savings Banks and the Co-operative Societies, have satisfied their need for organizations in which they could invest their savings.

This only partly explains the matter. The real diffi-

* Similar problems are arising in the United States, and the study of the rural credit problem is being actively canvassed. For legislative activity in the States to date, see the *Chicago Journal of Political Economy* for February, 1916: "The New Rural Credit Plan"; and the references to American literature in the report mentioned below.

culty lies in the nature of co-operative credit, on the one hand, and in the lack of opportunity to utilize it, on the other. Thus, whilst co-operators have successfully developed banking institutions on the general plan of commercial banking, they have not so far found it possible to utilize mutual aid for purposes of production. For co-operative credit involves, on the one hand, a readiness to submit to investigation, and, so far as the Continental model has been followed, a willingness to accept unlimited responsibility for the engagements of others—both principles alien to the temperament of Britons, as Mr. Nugent Harris of the Agricultural Organization Society points out.* On the other hand, the principle of co-operative production in the true sense has never been very successful in this country of large-scale industry, and this, together with the lack of a strong rural movement, has contributed to check the extension of the system.

Hence, with the partial exception of Ireland, hardly anything has been accomplished. Is there any hope for better success in the future? That depends on general, as well as special, tendencies. A general willingness on the part of the Joint-Stock Banks to further the ends of the small holder and the independent craftsmen would go some way towards meeting some of the difficulties. On the other hand, such a development would still rob the general democratic movement of a valuable instrument of experience and support. For joint-stock banking is not, and cannot be, a specifically democratic institution. Banks are in the position of Mr. Shaw's Andrew Undershaft—they sell financial ammunition to the righteous and unrighteous provided the security is

* Memorandum submitted to the Departmental Committee on Agricultural Credit in Ireland, Cd. 7376, p. 519.

good. Their scale of operations is too great for even a considerable extension of co-operative business much to affect their point of view, nor would this be desirable. Nor is it certain that the growing demands made on the great banks by powerful sections of opinion will leave them with much energy or resources for the purposes here specifically in view.

The task for the co-operator is, therefore, to adapt the general principle to the peculiar needs of English conditions. There seems no reason why this should not be done. And it would have the great advantage that the worker's savings would be utilized for the extension of production undertaken by the workers. At present the volume of savings going into savings banks are used for the purpose of bolstering the national credit by being invested mainly in Consols. Of course, working-class institutions who hold Government securities are interested in their price being kept up, but this surely is a matter of general concern; and there is no reason to suppose that the country gains more in the long-run by the diversion of the workers' savings in this way than it would if some part of these savings were utilized by means of institutions controlled by the workers themselves for productive purposes.

This brings one to the very vexed question of the finance of the savings banks. The situation here has changed since the rise in the general rate of interest. For whereas at the beginning of the century the interest paid to depositors left no margin for working expenses, since that time (and especially since the War) the interest paid to depositors is lower than that obtainable in the outside market on first-class securities. In spite of this, the amounts due to depositors show a steady rise over the whole period of 1900-1914.

The time has come for a thorough revision of the whole subject. The attitude of Government has vacillated strangely with regard to it, and on the place which its own institutions should take in the national economy. Certain it is that with the necessity for universal economy a rise in the interest rate should prove attractive.* But this is really only touching the fringe of the subject, Is there any reason why the Post Office should not be used, as it is to an increasing extent on the Continent, as a means for the transfer of cash? The cheque, after all, is the most useful of transfer instruments, combining safety with economy in the use of coin, and the development of checking deposits on the Post Office would bring a banking account within the reach of all workers. Against this must be set, in fairness, the fact that small banking accounts are readily accepted by the English banks, and some limit would have to be imposed on the turnover of an account in order to avoid what would be regarded as unfair competition. There is no reason, at all events, why the philanthropic view of the functions of the savings banks should not be finally dropped and its adaptation to a wider purpose not be discussed. This involves, of course, consideration of the possible linking-up of Post Office deposits and co-operative banks. Continental experience reveals that these two sets of institutions are far from antagonistic. Care would have to be taken that the possibility of cheap assistance from the Post Office did not cause a fictitious growth of co-operative credit institutions; *but once these were in existence*, support from the Post

* One cannot see why investment in the Post Office Savings Bank should not be made as attractive as possible, in view of the way in which the funds are actually utilized, when it seems to be universally admitted that working-class opinion still fights shy of direct investment in Government securities, however attractive the terms offered.

Office, virtually the universal banker for large sections of the population, might well be considered.

V.—CONCLUSION. .

One may close, then, with the general expression of opinion that a reorganization of the national economy involves the banker on every side. But the vital need here is, after all, caution. The history of the world is only too full of the disasters caused by neglect of that most requisite of all the economic virtues. Much needs doing and much can be done by courage, foresight, and the application of the resources of our credit system to the problems of our time and generation. But if the work is to be done well, if it is to last, the nation must avoid the conclusion that the banking organization can do for it that which rests on far deeper economic bases—work, and moderation, and thought.

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SECTION I.

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SECTION III.

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1. The discussion of the gold reserve problem is unfortunately scattered over many years, and is to be found mainly in pamphlets and newspaper cuttings, a collection of which can be consulted at the Library of the London School of Economics and Political Science. For the famous speech at Leeds of Viscount Goschen, see his *Essays and Addresses on Economic Questions* (Arnold, 1905, 15s. net), and *The Times* of December 4, 1891; for a subsequent discussion by Professor Foxwell and Mr. Pownall, see the *Economic Journal* for March and September, 1892. Sir Robert Giffen's views will be found reported in the daily papers for March 26, 1908; and for the views of Mr. Pownall, see his *English Banking* (Blades, East and Blades, 1s.); while the *Journal of the Institute of Bankers* contains important discussions by Sir

Felix Schuster, Sir E. Holden, and others. Also *Journal of the Manchester Statistical Society* for an important paper by Mr. Drummond Fraser (read before the Society on November 15, 1911), and discussions by Sir R. H. Inglis-Palgrave and Mr. Hartley Withers in books above mentioned.

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3. There is an extensive bibliography of the whole field of co-operative credit in the *Report of the Departmental Committee on Agricultural Credit in Ireland* (Cd. 7375-6, 1914), pp. 388-9, the report itself being a valuable addition to the English literature on the subject. German conditions are investigated at great length in Mr. Cahill's official report on *Agricultural Credit and Agricultural Co-operation in Germany* (Cd. 6626 of 1913). The greatest living authority on the subject is Mr. H. W. Wolff, of whose many books the third edition of *People's Banks* (P. S. King, 6s. net) and *Co-operative Banking* (P. S. King, 7s. 6d. net) may be specially recommended. In addition there is a short introduction by H. C. Devine, *People's Co-operative Banks* (Cassells, 1s.). See also Fay, *Co-operation at Home and Abroad* (King, 10s. 6d. net). For the Co-operative Wholesale Bank, see a Conference paper, read by the Bank Manager, Mr. T. Goodwin, on *The Work and Objects of the C.W.S. Bank*.

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APPENDIX

TABLE No. 1.—AGGREGATE BALANCE SHEET OF THE BANKS OF THE UNITED KINGDOM,
INCLUDING THE BANK OF ENGLAND.**Liabilities.*

	1912-13.	1913-14.	1914-15.	1915-16.
Capital and reserves	1,130,888,800	131,629,000	130,614,000	129,682,500
Undivided profits	6,459,100	6,705,300	6,719,600	6,321,300
Deposits	1,853,542,700	1,104,329,700	1,290,593,900	1,405,386,000
Acceptances	68,848,500	67,547,300	53,959,700	66,863,000
Notes, bills, etc. . .	51,945,500	54,591,800	64,962,300	72,117,300
	1,311,684,600	1,364,803,100	1,546,849,500	1,680,370,100

Assets.

	1912-13.	1913-14.	1914-15.	1915-16.
Cash in hand: money at call and short notice . .	302,436,500	328,559,100	409,161,300	382,011,800
Investments . .	228,806,900	222,689,900	258,555,200	473,289,100
Discounts and advances . .	701,532,900	735,103,800	807,608,300	743,655,200
Premises and cover for acceptances	78,908,300	78,450,300	71,524,700	81,414,000
	1,311,684,600	1,364,803,100	1,546,849,500	1,680,370,100

* From *Economist* Banking Numbers of May 23, 1914; May 22, 1915; and May 20, 1916.

TABLE NO. 2.—CASH IN HAND AT BANK OF ENGLAND AND MONEY AT CALL AND SHORT NOTICE.*

	1912-13.	Per Cent. of Assets.	1913-14.	Per Cent. of Assets.	1914-15.	Per Cent. of Assets.	1915-16.	Per Cent. of Assets.
Bank of England ..	31,300,500	27.3	34,983,100	29.4	69,493,600	33.2	51,476,400	24.0
Other English Stock Banks	216,110,200	23.4	235,957,800	23.5	276,045,900	27.6	262,453,200	22.9
Private banks ..	7,113,200	22.4	6,468,700	20.0	6,642,000	17.9	8,038,900	21.7
Scotch banks ..	33,882,200	22.2	33,961,000	21.3	34,597,600	20.6	36,730,300	20.7
Irish banks ..	14,030,400	16.4	17,188,500	19.0	22,382,200	22.8	23,313,000	22.2
	302,436,500	23.2	328,559,100	24.1	409,161,300	26.4	382,011,800	22.7

* From *Economist* Banking Numbers of May 23, 1914; May 22, 1915; and May 20, 1916.

TABLE No. 3.
I.—CO-OPERATIVE CREDIT IN ENGLAND AND WALES (1914).*

	Number of Credit Societies.				Number of Members.		Loans granted during the Year.
England	46	892	£1,382
Wales	3	27	34
					49	919	£1,416

II.—CO-OPERATIVE CREDIT IN IRELAND.†

Agricultural Credit Societies.	No.	Member-ship.	Loan Capital.	Deposits.	Loans granted.	Reserves.	Net Profit.
Ulster	62	5,431	5,405	12,519	18,038	1,335	142
Munster	47	2,479	3,238	1,566	3,850	220	21
Leinster	57	3,896	8,323	6,266	14,506	646	21
Connaught	70	7,699	12,296	6,936	19,659	1,484	121
	236	19,505	£29,264	£27,290	£56,055	£3,686	181
			11	3	4	10	4
						5½	6

* From Report of the Agricultural Organization Society for year ending March 31, 1915, Appendix, p. 71.

† From Report of I.A.O.S. for year ending June 30, 1912, pp. 122-3.

TABLE No. 3—Continued.
 III.—BANKING DEPARTMENT OF THE CO-OPERATIVE WHOLESALE SOCIETY, LTD.
Liabilities.

	<i>Capital.</i>	<i>Reserve.</i>	<i>Total Capital and Reserve.</i>	<i>Per Cent.*</i>	<i>Deposits.</i>	<i>Per Cent.*</i>	<i>Profit Balance.</i>	<i>Per Cent.*</i>	<i>Total Liabilities or Assets.</i>
Dec. 1915 ..	2,284,758	588	2,285,346	28.2	5,781,134	71.4	28,776	.4	8,095,256
" 1914 ..	2,130,959	143,984	2,274,943	32.5	4,702,135	67.1	27,624	.4	7,004,702
" 1913 ..	2,039,054	143,707	2,182,761	34.7	4,077,347	64.9	27,737	.4	6,287,845
" 1912 ..	1,916,151	126,877	2,043,028	38.6	3,222,355	61.0	21,844	.4	5,287,227
" 1911 ..	1,830,511	118,657	1,949,168	44.9	2,369,613	54.6	21,082	.5	4,339,863

Assets.

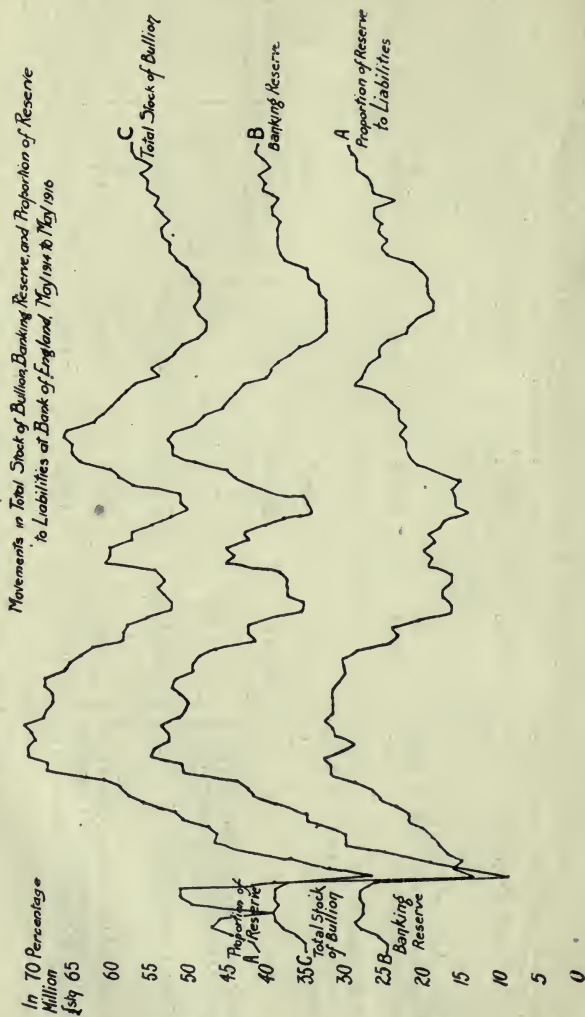
	<i>Cash.</i>	<i>Per Cent.*</i>	<i>Investments.</i>	<i>Per Cent.*</i>	<i>Advances, Loans, etc.</i>	<i>Per Cent.*</i>	<i>Land and Buildings.</i>	<i>Per Cent.*</i>
Dec. 1915 ..	1,028,345	12.7	4,704,440	58.1	2,359,354	29.2	3,117	—
" 1914 ..	1,215,535	17.3	4,361,537	62.2	1,424,318	20.4	3,312	.1
" 1913 ..	1,523,187	24.3	3,868,081	61.4	893,070	14.2	3,507	.1
" 1912 ..	1,259,015	23.8	3,106,755	58.8	917,575	17.3	3,702	.1
" 1911 ..	898,590	20.7	2,328,875	53.6	1,108,682	25.6	3,716	.1

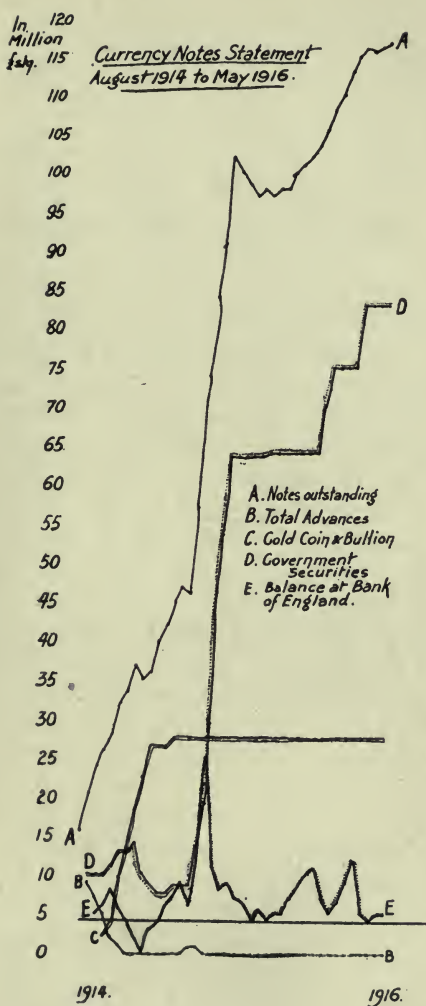
* Per cent. of total liabilities or assets. (From Banking Number of *Statist*, May 27, 1916, p. 1019.)

TABLE NO. 4.—SAVINGS BANKS AND INDUSTRIAL AND PROVIDENT SOCIETIES.*

<i>United Kingdom.</i>	1910.	1911.	1912.	1913.	1914.
<i>Post Office Savings Banks:</i>					
Due to depositors at end of year	£	£	£	£	£
(in million pounds)	168.89	176.52	182.10	187.25	190.53
<i>Trustee Savings Banks:</i>					
Due to depositors at end of year	52.27	53.03	53.81	54.26	53.94
(in million pounds)	£221.16	£229.55	£235.91	£241.51	£244.47
<i>Industrial and Provident Societies:</i>					
Number of societies making returns	2,409	2,410	2,507	2,497	—
Number of members	2,692,112	2,785,352	2,914,326	3,054,969	—
Share capital (in million pounds) ..	£	£	£	£	—
Due to depositors and other	35.82	37.56	39.12	41.74	—
creditors (in million pounds) ..	17.36	19.25	17.5	17.67	—

* From Statistical Abstract for the United Kingdom, 1915.







VIII

INDUSTRY AND TAXATION

THANKS to the extraordinary wealth and resources of the United Kingdom, we have scarcely yet begun to realize that no effect of the War is so far-reaching—and unless the problem is skilfully handled, none is likely to be so lasting—as the disturbance of national finance. Compared with the immediate effects of the outbreak of war, such as the dislocation of home and foreign trade, the withdrawal of millions of men from productive employment, the introduction of female labour into old and new industries, and the 60 per cent. rise in food prices, the importance of national finance is apt to be overlooked. But the longer the War continues, the more clearly will it appear that finance is central and that the incalculable economic consequences of the War will be in the main the outcome, not directly of the War itself or of the transference of industry and labour from their peace use to their war use, but of the taxation necessary to meet its cost.

War is always the greatest enemy of sound finance. It is the despair of every Chancellor of the Exchequer who takes either a scientific interest in the national balance-sheet or a humanitarian interest in the welfare of the people. During war the inherent defects of the pre-existing system of taxation are increased, any improper distribution of the burden is emphasized, and

all social reforms which involve the expenditure of money are brought to a standstill. The after effects of war are no less disastrous, for war involves the creation of a national debt which it takes generations or even centuries to repay. It gives additional power to the classes who have capital to lend to the community, and weakens the power of the classes who can only serve the community by their labour. It makes every enterprise more costly and raises the price of every article of consumption. By the inventive ability of a scientific era, the productive energies of the nation may be quickly restored or even increased, but the permanent increase in taxation insures that for an indefinite time the increased production is spent, not in building new and better houses, in cheapening food or in adding to the comforts and conveniences of life, but in repairing the waste and making good the losses incurred during the war. Further, war puts an end to all attempts to improve the distribution of taxation as between the rich and the poor; the reforms of the preceding time of peace are inverted. Modern statesmanship has aimed at giving the less fortunate members of the community greater security and a greater command over the good things of life than uncontrolled economic forces enable them to receive. By facilitating the exchange of products between the different nations of the world, by framing a code of social legislation which fixes a limit to the incessant pressure of wealth upon labour, the State has consciously set its face towards an ideal of economic justice. The ideal remains. But every step towards its realization is clogged with new and unforeseen obstacles. Fiscal necessities, combined with the international hatreds occasioned by the War, threaten the destruction of the measure of freedom of international

commerce already achieved. Not till a very substantial portion of the cost of the War has been met will the State be in a position either to supplement the work of private enterprise by undertaking the economic work that only the organized community can adequately perform, or to complete the task of social readjustment on which it has entered. The diversion of the annual savings of the community to the national Exchequer from investment in productive employment at home and abroad will tend to diminish the gross value of our foreign trade, and, in nearly every home industry, the output available for consumption. Incomes, whether derived from home or foreign employment, will be harder to earn, and when earned will purchase less.

The problem of taxation in reference to the War is therefore a threefold problem: First, by what means and from what sources ought the cost of the War to be met while it lasts—how much from actual earnings and how much from borrowed money? Secondly, when the War is over and the total expenditure has been definitely ascertained, what steps should be taken to redeem the national debt incurred? And, thirdly, how ought the cost to be met so as to distribute the burden fairly over the community as a whole, to impoverish industry as little as possible, to maintain the standard of life of the wage-earning classes, and to prevent the rise of new and acute questions of poverty?

Before entering upon this discussion it is necessary to examine briefly some considerations regarding the relation of taxation to national life, to explain the genesis and main features of the system of taxation that prevailed when the War began, and to describe the changes that the War has already brought about in our system of national finance.

To tax is a fine art, and, as in most of the fine arts, there have been many indifferent performers and few consummate masters. At all periods of history the majority have felt taxation to be the most direct way by which the citizen and the State have come into contact. Whatever the State may or may not have done, it has always been a tax-collector.* Taxation emphasizes the false distinction which is the root error of those who assert that the State is based on force—viz., the distinction between the State and its subjects. To tax is to wield power; to be taxed is to suffer the exercise of power. This appears to be a fundamental truth regarding taxation, and this not merely in primitive unenlightened States. Even in a highly developed modern world, the citizen becomes conscious of his membership in the State mainly through taxation. He may never have voted at an election, he may never have seen the inside of a civil or a criminal court, but from the cradle to the grave he is faced with the claims of the State as the sovereign taxing authority. Only during war, and the intense but transient patriotism which war evokes, is this sometimes subdued and sometimes clamorous conflict between the individual and the State almost completely stilled.

This perpetual struggle may be caused either by the strength or by the weakness of the State. First, taxation is part of the return demanded from the individual

* When the State has broken up or been dissolved its power effectively to tax immediately vanishes. Compare what happened at the break-up of the Roman Empire. "After the downfall of (the Roman) Imperial Rule all the efforts of Barbarian Kings to maintain systematic taxation were in vain. Taxes broke up into customary payments, and were mixed up in an inextricable manner with rents and profits originating in private ownership" (Professor Vinogradoff in *Cambridge Mediæval History*, vol. ii., p. 641).

for the protection and privileges he enjoys as a member of the State. To submit to taxation is to fulfil duties and not to claim rights, and rights are generally popular, duties unpopular. Secondly, no system of taxation ever devised has avoided hard cases, and few systems till modern times have even attempted to put into practice some ideal of justice or right. Taxation falls either on income from property, the fruits of past labour, or on income, the fruits of present labour, and in the great historical periods the first charge for the maintenance of the State has been wrung from labour, and only a remnant borne by the holders of property. To this more than to any other cause is due the feeling of aloofness with which the great mass of the people have regarded the State till quite modern times. And, thirdly, most important of all, it has only been recognized within the last three centuries that taxation is a function which the State ought to keep in its own hands.*

Should the State entrust the power of taxation to individuals or groups of individuals, it parts not only with an incalculable source of strength, but with one of its chief duties. The weakness of the State, however, has frequently been the opportunity of some powerful economic or political individual or group. In Eastern communities the absence of organized administration threw the taxing power into the hands of grasping individuals, who returned to their employers only a small part of the sums they wrested from society. Under

* A fairly devised system of taxation is the offshoot of Parliamentary institutions. The often repeated battle-cry, "No taxation without representation," expresses the repugnance to haphazard methods of taxation which non-representative government always involves. Notice also how the idea of representation necessarily involves the recognition of the community.

feudal conditions the State was obliged to hand over the work of maintaining society to social classes, who imposed taxation with little or no responsibility to their nominal political overlords. A vast body of historical evidence might be brought forward to show that whenever a class in the community is powerful enough either to escape from taxation or to obtain a substantial or exclusive right to tax, that class becomes the master of the community. For this reason the maintenance by the State of the sole and exclusive right to tax lies at the root of all true social life. Taxation is a necessity. In a completely socialistic State taxation would be even more necessary. It would be essential not only, as in earlier times, to provide for a minimum of internal and external security, or, as in modern times, to develop education and to keep the economic machinery of State in working order, but also to furnish the capital necessary to start new industries and to keep the equipment and plant of old industries continually up-to-date.* But whether a State adopt an attitude of rigid *laissez-faire*, or insist not only on controlling but on managing industry, taxation ought to be its unchallengeable province. If it allows the right to tax to slip from its grasp, the result is immediately a tendency to the disintegration of civil life, and ultimately chaos.

BRITISH TAXES SINCE THE INDUSTRIAL REVOLUTION.

The confusions that attended the birth of the modern State had their counterpart in the slow growth and the still slower adoption of the new ideas regarding taxation. At the beginning of the nineteenth century British national finance had few elements of a just or well-constructed system. Embedded in it were the

* See Hartley Withers, *International Finance*, p. 21.

remains of every preceding era of English history. With traces of feudalism and of the various expedients* that were soon found necessary to supplement the gradually declining financial value of the feudal system, with marks of Angevin statecraft and Tudor and Stuart absolutism, it lacked both symmetry and cohesion. The civil struggles of Cromwell's time had transferred the power of the purse from the Crown to Parliament, but in practice that had as yet meant little more than the passing of control from an executive that was tolerably efficient to a representative body that was notoriously corrupt. The eighteenth-century Parliament knew little and cared less about sound financial administration. It was neither familiar with the rudiments of scientific theory, nor did it trust the few expert statesmen who showed some insight into the needs of the nation. Walpole† and Pitt carried through the changes that foreshadowed the reforms of the nineteenth century in the face of indifferent Parliaments and an often hostile country. Popular clamour was loud enough to wreck more than one sound reform. The period between the

* Down to the seventeenth century the national income was bound up with feudalism. The chief source of revenue lay in the Crown lands and in the feudal dues payable by the barons and lords of the manor. Customs were levied on certain classes of goods entering the country as early as the reign of Edward I. Apart from the revenue derived from land and foreign trade the Crown was frequently compelled to borrow, at first, when banking was unknown in England, from the Jews and rich bankers of foreign countries, and afterwards, as the wealth of English traders increased, by loans and benevolences chiefly from the merchant princes of the City of London.

† Walpole's famous proposals of 1733 in substance meant nothing more than the substitution of excise duties on some articles imported from abroad for the customs duties hitherto chargeable, his object being to make London a great centre of distribution through which European traders could draw commodities from all parts of the world without paying our customs duties.

collapse of feudalism and the industrial revolution has been described as a period of fiscal experiment, but it was rather new taxes that were tried than new systems of taxation. Between the death of Queen Elizabeth and the modern era the outstanding financial changes were (1) the adoption of the Dutch plan of excise duties on goods produced at home, (2) the abolition of the feudal dues, (3) the establishment of the national debt, and (4) the Land Tax of 1692. The last contained in germ the possibility of a fair and well-balanced system;* but political and administrative conditions prevented its being developed into anything like the modern income tax.†

The net result of all four measures was that in the eighteenth century the indirect tax-payer had to meet the bulk of the State's liabilities. While the income from the Crown lands and the yield of the Land Tax steadily declined, it was he who had to bear the interest charge on the national debt and the always increasing burden of customs and excise duties. Reliance on the indirect tax-payer is a sign of political and economic immaturity. As new countries aim at getting most of their revenue by indirect taxation, so in the period that intervened between the mediæval order and modern

* The intention, no doubt, was to levy an income tax, but this was not carried out even at first.

† It is a favourite theory in many quarters that the system of taxation in force at a particular period depends on the balance of economic forces in a country. It may with much more truth be asserted that the most sagacious statesmen in every age stand above the level of the dominant economic forces and are constantly trying to defeat them or to use them for the good of the country as a whole. The dominant economic forces are generally very blind and very stupid. Of course sometimes a statesman has to confess himself baffled. But his statesmanship is not shown by the way in which he bends before these forces, but by the extent to which he can control them for the permanent interests of his country.

industrialism Great Britain exempted the capitalist classes from their proper share of taxation, and the new manufacturing system developed free from any attempt by the State to absorb its growing gains.

The period of William Pitt and the French wars was financially, as well as politically, the stormiest in our annals. In 1791, before the war began, the normal expenditure of the country was between £18,000,000 and £19,000,000. In 1815 the ordinary revenue had grown to £46,000,000, but in addition the income or property tax yielded £15,000,000, and other taxes imposed during the war £9,000,000, or a gross total of £70,000,000. The loans for the year reached £39,000,000, and other extraordinary sources of expenditure £11,500,000. The gross expenditure of the year, raised partly by loan and partly by taxation, amounted to upwards of £120,000,000. The enormous outlay fell into several classes: (1) The cost of maintenance of the army and navy (almost £58,000,000); (2) subsidies to foreign countries; (3) the ordinary administration of the country; and (4) the rapidly growing interest on the national debt. During the war the national debt had risen from just over £200,000,000 to £876,000,000, and the annual interest charge was nearly twice the total yearly income of the nation in 1791.

The only financial advantage of war is that it tests and improves the financial system by enabling statesmen to tap reserves they would hesitate to employ in time of peace. The first necessity is to beat the enemy, and requests for money can scarcely be refused by any class in the community without its running the risk of being called unpatriotic. When costly measures of social reform are as seriously demanded as military success, no consideration of expenditure will stand in the

way. Chancellors of the Exchequer are rarely bold except when an overpowering demand for national prestige or national safety urges them on. But the productiveness of a tax is at such times more important than its fairness. The nature of war taxation is in general determined by the trend of events in the preceding years of peace. This might be illustrated by reference to the present war. It is certainly true of the Napoleonic wars. Just as the indirect tax-payer had been the Exchequer's beast of burden in the eighteenth century, so every year* the war lasted fresh imposts were put on him, until, in Sydney Smith's famous words, "everything that could be taxed was taxed." Many of the taxes yielded little or no revenue. In other cases the scanty revenue brought in was quite insufficient to pay the cost of collection, and taken as a whole they formed an intolerable burden on trade. The poorer classes sank into an abyss of misery the most terrible in British history, and had it not been for the extraordinary profits made as the result of the new manufacturing methods, even the middle classes would have been ground out of existence. Nothing is more extraordinary about the barren statesmanship of this period than its utter lack

* Take two Budgets almost at random from the war period: first the Budget of 1801, voted while the country was waiting for the preliminary negotiations that ended in the Treaty of Amiens. Among the duties proposed and carried in that year were additional duties on tea, pepper, calicoes, butter, 20 per cent. additional duty on sugar, duties on raisins and lead, a duty of 6d. per pound on all exports, of 3d. per pound on all articles consumed at home, a further duty of 4s. for every horse engaged in agriculture, of 10s. on every pleasure horse, and a rise in the penny post from one penny to twopence. Secondly, in 1815, an additional tax of 3s. 6d. on every window of 48 square feet of glass, an additional duty of 80 per cent. on servants, carriages and horses, 5½d. additional on tobacco, and further duties on beer, newspapers, and foreign letters in the Post Office. These are two specimen years. For the whole subject see Smart, *Economic Annals of the Nineteenth Century*, vol. i.

of financial resource. Apart from the income tax, there was no attempt to discover new sources of revenue except by seeking out fresh articles of consumption and laying a tax on them. Neither, as the war went on and duties accumulated, was any attempt made to codify and simplify the rates charged. One duty was cast on the top of another quite indiscriminately. No one outside of the Government departments concerned understood the national accounts, and even professed experts could do nothing more than guess the probable yield of any new tax.

The income or property tax was the only new expedient in the way of taxation. It was first imposed in 1798, and was generally received with the utmost hostility and execration. Consumers and indirect tax-payers were unorganized, and could only raise impotent hands to the deities in Whitehall, but the producers and direct tax-payers had to be placated at all costs. The consent of Parliament was only given to Pitt's scheme* because of the national peril and the difficulty of raising sufficient revenue by other means. Immediately the Peace of Amiens was signed, a fresh outcry arose against the continuance of the tax, and it was dropped. Fox, who wisely qualified his opinion by declaring that he knew nothing of political economy, said that it was an impost against all principles of taxation—in fact, a confiscation of property. On the renewal of the war the tax was promptly reimposed,† and it continued to be

* The 1798 scheme affected all persons with incomes over £60. The tax was imposed on a graduated scale on all incomes between £60 and £200. After the £200 limit was reached, 10 per cent. or 2s. in the pound was taken with deductions for children, insurance premiums, repairs of buildings, etc. See Bastable's *Public Finance*, p. 479.

† This time at first the tax was only 1s. in the pound, but it was chargeable at the full rate on incomes of over £150. It was increased to 2s. in 1806.

levied all through the war. Doubtless there were many inconveniences and injustices connected with its method of assessment, independently of the rate of the tax and the weight with which it fell on the poorer classes of tax-payers. But it was not considered on its merits. The great objection throughout seems to have been to its inquisitorial character. It was the inquiry of the Government into income that constituted the main grievance. After Waterloo there was no pretence of a careful inquiry into its operation or as to its proper place in a scheme of taxation, but an instant demand for its abolition. Vansittart, the Chancellor of the Exchequer, was unwilling to yield. He told the House of Commons that he had never heard the general equality and equity of the principle of the income tax denied. However, by a not at all overwhelming vote the House rejected his scheme for its continuance for a period of years, and in March, 1816, the property tax disappeared from the Statute Book till it was reintroduced by Sir Robert Peel in 1842.

The other noteworthy feature of war finance was the notable increase in the national debt. The first great chapter in the history of the modern debt came to an end with the establishment of the Three per Cents by Pelham in 1749. Midway through the century two changes occurred which reacted on the size of the debt and the terms on which it was borrowed. In the first place, after the close of Walpole's long peace régime, wars became more frequent and more costly. In the second place, capital began to find many more avenues for employment than in the earlier part of the century. The Industrial Revolution made the demand for capital to grow by leaps and bounds, just at a time when the Government required vast supplies of borrowed money

to meet the expenses of the American and French wars. From £72,200,000 in 1756 the debt grew to £228,000,000 in 1783, and the Revolutionary and Napoleonic Wars raised it to £876,000,000. The usual justification for borrowing during war may have provided a legitimate excuse for a greater part of the increase. But faulty financial methods were responsible for a quite unnecessary load. Mr. Gladstone used to affirm that if Pitt had imposed the Property Tax in 1793 instead of 1798, there need have been no debt at all. This is debatable in itself, and there is, of course, the further question whether public opinion would have tolerated the tax at the beginning of the war. But it cannot be questioned that Pitt unduly delayed recourse to taxation. He depended too much on loans in the early years of the war, and the result was that during the later period he had to borrow on much less advantageous terms. Had he relied as little as he could on the money market, and had he drawn as much as possible out of revenue, the rate of interest on subsequent loans would have been much lower. Further, the inefficient methods by which loans were obtained resulted in the creation of a considerable amount of debt which did not represent funds actually received by the Government.

Another extraordinary phantasy of Pitt was the Sinking Fund, the idea of which he got from Dr. Price. The scheme involved the raising of a million pounds a year by taxation, which was placed in the hands of Commissioners, who used it for paying off the debt. But interest was still paid on the stock extinguished, and the interest used for paying off further portions of the debt, and so on year by year, the fixed sum of one million pounds being steadily applied for this purpose. Pitt intended to make this arrangement perpetual.

Clearly, however, if it were necessary to borrow at a high rate of interest, it was absurd to pay off debt on which only a low rate was being charged. The result was that the burden of debt was unnecessarily increased. Throughout Vansittart's long career as Chancellor of the Exchequer the Sinking Fund was continued on pretty much the same lines, though changes occurred almost every year in the amount devoted to it. In 1819 it was superseded by a provision for paying off five millions a year, the cost to come out of the annual revenue, but the revenue could not be coaxed to yield a surplus, and the Sinking Fund was maintained by borrowing. Not till 1829 was what is now called the Old Sinking Fund system established, by which the surplus of income over expenditure is annually devoted to debt redemption.

The twenty-five years that succeeded the Peace of Paris were a transition period, and the fortunes of sound finance were linked with those of fiscal reform. During the whole of the nineteenth century free trade was the engine that drove the financial car. The confusion in the national accounts of the period from 1815 to 1840 was due to the slow acceptance of free-trade principles by each of the great parties in the State. Adam Smith had done much to popularize the notion of relieving foreign trade from oppressive customs duties, and in this as in other respects the *Wealth of Nations* exercised a powerful influence over men's minds from 1776 onwards. The history of the Free Trade movement has often been traced in detail, and it is not necessary to summarize it here. Beginning with the halting reforms of Huskisson in 1825, it reached its zenith between 1840 and 1860, during the Chancellorships of Peel and Gladstone. Before 1870 practically every trace of the older system had been eliminated, and unrestricted foreign

commerce passed from the region of hypothesis to that of fact. The abolition of all duties of a protective character was accompanied by the reimposition of an income tax, and the direct tax-payer was compelled to shoulder a large part of the burden that had hitherto fallen on his less robust brother. However, in the early seventies the prosperity of the country grew by leaps and bounds, and, as the State played an insignificant part in industrial oversight and control, the pressure of taxation was but lightly felt by every class in the community. Rarely before, and never since that time, has so small a proportion of the national income been claimed by the Exchequer. A splendid opportunity was missed at this time for reducing the national debt. Mid-Victorian Chancellors have subsequently been regarded as financial purists, whose economy and watchfulness over the national resources are an example to their less thrifty successors. But careful and parsimonious as they were in many respects, the resources of the country were equal to a much more rapid reduction of debt. Had the income tax, which was raised to sixteenpence in the pound during the Crimean War, been maintained at the uniform figure of eightpence in the pound for twenty-five years after that war, the debt, instead of being reduced only by about seventy millions, would probably have fallen by 1883 to about 635 millions—a figure it did not reach till the outbreak of the South African War in 1899. All through the period there was too much timidity and hesitation about debt reduction, with the consequence, not only that unnecessary interest charges had to be met, but that the progress of social reform was delayed and hampered.

In the twenty years that preceded the outbreak of the present War a new period of reforming energy began.

Collectivist theories had taken hold of the public mind; and it became evident that in order to allay discontent and to preserve the foundations of the State an exhaustive scheme of social reorganization must be attempted. Hence the Death Duties of 1894, the Super-tax of 1909, the increasingly high income tax, and all the miscellaneous group of taxes gleaned by a careful and yet generous Chancellor in the famous Budget of 1909. In spite of gloomy predictions, the country bore the load with scarcely a stumble, though here and there just criticisms were passed on Treasury management. But the critics of expenditure on the ground that the estimates had been unduly swollen were effectively answered by the critics of the opposite school, who were able to point out directions along which still larger State funds might be usefully applied to safeguard the permanent welfare of the community. The only unanswerable charge brought against the fiscal changes of recent years is a technical one. The Treasury ought not to be a spending department. Gladstone and the Peelites may have held narrow views regarding State intervention in industry, and they certainly did their utmost to restrict expenditure. But they were careful administrators of the public funds, scorning waste and insisting on the nation getting full value for every penny spent.* A return to the Gladstonian tradition in this respect would not be a bad preliminary to a continuation of social reform after the War.

On the whole the financial system in operation at the outbreak of war pressed with little hardship on any branch of industry. Whether taxation can be employed

* On this subject there are some interesting comments by Mr. Gladstone in reference to a speech by Robert Lowe. See Morley's *Life of Gladstone*, book vi., ch. vii.

to benefit a single industry without either injuring other industries or damaging the trade of the country as a whole is a problem to which reference will be made later. It is probable, on *a priori* grounds, that insufficient care has been taken to discriminate between various kinds of income, and that income due to effort and skill has been unduly taxed in proportion to surplus gains that accrue owing to fluctuations of the market and other causes over which the recipient of the income has no control.* Whether the British people were politically as unprepared for the present War as they were socially is a matter open to question. The test, it may be suggested, is not whether we had made sufficiently elaborate preparation for war, but whether our national institutions were so well organized, and our political system so closely related to national habit and will, that they could stand the strain of so gigantic a conflict without having their fundamental characteristics radically altered. In the same way the supreme test of our success in the War, looked at from the point of view of national life, will be whether our national system and modes of life have been so shaken that they cannot be re-established, but must be permanently abandoned in favour of other systems and other modes. There can, however, be no doubt that, whatever imperfections appeared on the outbreak of war in our military arrangements, or elsewhere in our political and economic life, the foundations of our financial system had been so well and truly laid that it has up to the present suffered less even than our industrial or political system

* The State is not a very skilled agent for discovering monopoly gains and "producers' surpluses." Perhaps experience of the administration of the excess profits tax may give it more confidence in dealing with such cases in the future.

as a whole from the shock of war. Fears were frequently expressed that the supposed reforms of the nineteenth century had dangerously narrowed the basis of taxation, and that the revenue would not automatically respond to the demands made on it by the cost of a great war. Events have belied these gloomy predictions. The financial policy of the last two years may be in certain important respects open to criticism, but the system of taxation which Peel, Gladstone, Harcourt, and Lloyd George developed on lines originally laid down by Adam Smith and Ricardo and popularized by Cobden and Bright, has been splendidly vindicated. Even the unanimity of the British people and the intense patriotism evoked by the War would not have led to so magnificent a response had not the machinery for assessing, collecting, and increasing the revenue been very highly developed, and had not the realizable wealth of the country available for borrowing been constantly expanding under the influence of a favourable fiscal system.

War finance requires the most dexterous management of national resources. Many wars, which at the beginning gave promise of being short and conclusive, have involved years of campaigning. The problem of financing a war is incalculable, because no time limit can be struck beyond which combatants may not fight. Finance Ministers have therefore to deal with a problem of which the precise character is constantly changing, and to strike a happy mean amongst a complex set of forces. The estimated length of the war, its popularity, immediate or prospective, the wider demands on the nation for personal and financial sacrifices, the special conditions of a country, like the United Kingdom, dependent on overseas supplies of food and raw

material—these are only a few of the most material points on which a Chancellor of the Exchequer must keep his eye constantly fixed. In the circumstances, it is obvious that without the clear guidance of principle the best schemes of war finance would be little better than mere guesswork.

As a result of the experience gained in former wars, and of the better knowledge we now possess of the economic structure of society, two rules may be laid down, strict adherence to which is one of the main tests of financial statesmanship. In the first place, it is essential to rely as much as possible on taxation, and as little as possible on borrowing. This is the golden rule of war finance. A tyro can understand why it applies to short wars or to colonial or frontier wars, the entire cost of which is not likely to be very great. But its special importance lies in its application to the case of a war with a first-class Power of which the issue is in the nature of things more likely to be uncertain, and the end more remote. The second rule is that while the cost of a war ought to be felt by every class in the community, the incidence of the new taxation should be so adjusted as not to press unduly on the poorer groups of taxpayers. It is often said that no new departure which involves a permanent alteration in the distribution of taxation ought to be made during war. This, however, is a counsel of prudence rather than a rule of equity. It implies either that the pre-war distribution of the burden was fairly acceptable and equitable, or that to secure a better distribution would require a severe internal struggle which during war it is desirable to avoid. But this at least both justice and political prudence demand, that no insupportable burden should be placed on those whose economic position is one of constant insecurity

and struggle,* especially in view of the large addition to this class that is almost certain to be an outcome of the war.

In August, 1914, the superficial observer might well have been excused if he had suggested that our financial system would prove unequal to the strain of a costly war. For nearly ten years questions of taxation had been in the foreground of politics. The social legislation demanded by the advanced members of every political party had made necessary a considerable addition to the annual revenue. After a prolonged and bitter controversy it was decided to raise the required funds from taxation imposed on the more well-to-do members of the community, instead of by the alternative scheme of "fiscal reform." Capital and land joined forces in opposition to the change, and so fierce was the struggle that a foreigner, ignorant of the ungracious form of our political controversies, might have imagined that the English State was about to be rent in twain. Looking back on the struggle from the heightened patriotism aroused by the War, most partizans will admit that their forebodings were unwarranted and that the endeavour to transfer resources by State action from the relatively rich to the relatively poor, and to give greater security of life and livelihood to the less fortunate classes, was both desirable and timely. It had been repeatedly declared for twenty years and more that excessive reliance was being placed on the income tax and other forms of direct taxation, and that an attempt ought to be made to broaden the basis of taxation so as to lessen the risk of financial disaster on the occurrence of war.

* For a thorough discussion of the whole subject, see Pigou's *The Economy and Finance of the War*, § 10.

But the outbreak of war proved two things. In the first place, it proved the wealth of the British nation and the stability of our financial system. The income-tax, so far from having been exhausted by the imperious demands of social legislation, proved the most buoyant and elastic part of our fiscal system. The war also revealed the weakness of successive Chancellors of the Exchequer. The credit of the British nation is boundless, or at any rate no bounds can be set to it even during the first years of the most expensive war in history. Borrowing is easy, the security of British Government Stock is second to none—it rests on the calculable and incalculable elements that have made British history what it has been. Hence debt has been piled up by the State “with both hands earnestly.” The debt at the outbreak of war was £753,000,000, which, as has already been pointed out, was a scandalously high figure, considering the accumulation of wealth in the nineteenth century and the opportunities of successive chancellors. The debt will be increased to at least £2,640,000,000* before the end of the present financial year. Further, the income tax and the other maligned forms of direct taxation have proved capable of an expansion, which seemed wildly impossible when an additional revenue of less than £20,000,000 a year was sought for old age pensions and other reform schemes. Before the war the yearly income of the country was growing faster than even the most extreme Socialist had imagined. In about ten years it had increased probably about 25 to 30 per cent.†

* This figure was given in a speech by Mr. McKenna at the beginning of August as likely to be the national debt (i.e., including the pre-War Debt, but exclusive of loans granted to the Colonies and Allies) on March 31, 1917.

† See estimate of the 1903-04 National Income in Bowley's *National Progress in Wealth and Trade*, and various esti-

The increased revenue required for national defence and social legislation was an insignificant percentage of the total increase. This was, of course, all the while known to experts, but it required a great war to bring home to the masses of the people the amount of surplus wealth in the country—surplus wealth that could be dispensed with at a pinch. Without these financial resources it would have been impossible for the Empire to play a part in the War at all equal to its nominal strength, or even to provide for any substantial share of war expenditure out of taxation.

A considerable, but by no means an adequate, share of the total war expenditure has been obtained from new taxation. It is of course only possible to state approximately what proportion of war expenditure is being borne by taxation and what proportion by loan, but the following statement shows the important figures:

WAR EXPENDITURE MET OUT OF TAXATION.

	£
Revenue for financial year ending March 31, 1915 ..	226,694,000
Revenue for financial year ending March 31, 1916 ..	336,767,000
Revenue for financial year ending March 31, 1917 ..	*502,275,000
Total (estimated) revenue for period 1915-17..	1,065,736,000
Revenue for year ending March 31, 1914	£ 198,243,000
Revenue for three years on the same basis	594,729,000
Or, if an annual increase of £5,000,000 in the peace Budget be allowed for	609,729,000
Estimated total cost of the war defrayed by taxation to March 31, 1917	£456,007,000

mates of the income just before the war by Sir George Paish and other financial experts, published in recent numbers of the *Statist*, the *Bankers' Magazine*, and other periodicals.

* Estimated.

WAR DEBT (FUNDED AND UNFUNDED) ON SEPTEMBER 30, 1916.

			£
3½ per cent. War Loan 1925-1928	..	..	332,000,000
4½ per cent. War Loan 1925-1945	..	..	592,000,000
Total Funded Debt	..	..	924,000,000
		£	
Treasury Bills	..	..	1,041,488,000
3 per cent. Exchequer Bonds, March, 1920	..	..	48,000,000
5 per cent. Exchequer Bonds, 1919-21	..	..	333,591,600
War Expenditure Certificates	..	..	23,353,000
War Savings Certificates	..	..	28,450,000
Total Unfunded Debt	..	..	1,474,882,600
			1,474,882,600
Total War Debt	..	..	£2,398,882,600

The figures as they stand show very strikingly the disparity between the war expenditure defrayed out of taxation and the amount raised by loan. Supposing Mr. McKenna's estimate that the war debt at the end of March, 1917, will amount to £2,640,000,000 to be correct (and that sum, it must be remembered, does not include the loans to the Allies and to our Colonies, which may or may not be recoverable), then only 19·4 per cent. of the total cost of war to that time will have been defrayed out of taxation. Or, if we accept as authoritative his estimate of the annual national income quoted by him in the same speech—namely, £2,600,000,000—this means that in two and a half years the British nation has only been taxed to the extent of something less than 6 per cent. of its national income to meet the expense of the war, and this, too, when the national income has appreciably advanced. We smile at German finance. With figures like these before us, is not our financial virtue something of a makeshift?

For taxation is superior to borrowing in the same way,

and for much the same reasons, that a private person generally ought to meet all but very exceptional expenditure out of current income, and even when an exceptional demand is made upon him as far as possible it ought to be met without borrowing. In the first place, debt involves an annual return in the shape of interest, and the more distant the period for repayment, the greater the total cost to the nation. It may take a distinct effort to raise £100,000,000 in a year, but if that sum is borrowed at $4\frac{1}{2}$ per cent. and interest is paid for twenty-five years before the capital is redeemed, the cost to the community is £212,500,000, or more than twice the actual sum spent. Secondly, the fundholders are likely, even in a democratic State, to have a disproportionate share of political power, and, as Professor Pigou has shown,* they are apt to favour systems of taxation and fiscal policies which help, by easing them of their burden, to place it on other classes in the State. Thirdly, lavish borrowing by the State increases the rate of interest, makes capital more difficult to obtain, and hampers industry for an indefinite time. Fourthly, it is a distinct injustice to the oncoming generations. The principal cost in treasure as well as in blood ought to be required of the men of the present day. To pass it on to future tax-payers is a shiftless denial of responsibility. Not only does the necessity for taxation place a limit, as Mr. Gladstone used to say, to the lust of nations for territorial aggrandizement, but it makes them discharge at least a portion of their debt to the future. For all these reasons it is apparent that too exiguous a demand has hitherto been made on the tax-payer. The decisive political argument against meeting the main burden of war costs by taxation is the danger of rousing people against a war. Wars are fre-

* See Pigou, *The Economy and Finance of the War*.

quently unpopular with a large section of a community. But the policy of this War and the methods of conducting it were enthusiastically supported and are now generally supported by the mass of the people. Timidity is not a virtue, but a vice. Chancellors must remember that an exceptional opportunity has presented itself—an opportunity which may not recur again for twelve or fifteen years after the War—to take a large share of the gains which nearly all classes in the community are making out of the production of war material and from the provision of food products, and shipping services. They could do it without imposing disproportionately heavy taxation on any single class.*

THE NATIONAL BALANCE-SHEET FOR THE WAR YEARS 1914-17.

(a) 1914-15.†

<i>Income.</i>		<i>Outgoings.</i>	
Customs and Ex-	£	National Debt	£
cise	80,975,000	Services ..	22,669,000
Income Tax ..	69,399,000	Other Consoli-	
Estate Duties ..	28,382,000	dated Fund	
Other Taxes ..	10,549,000	Services ..	12,751,000
		Supply Services	168,054,000
Tax Revenue ..	189,305,000	Votes of Credit ..	357,000,000
Non Tax Rev-			
enue	37,389,000		
Total Revenue ..	226,694,000		
Deficit	333,780,000		
Total ..	£560,474,000	Total ..	£560,474,000

* Government Departments, especially the Ministry of Munitions, have been repeatedly criticized for paying too high a rate of wages in munitions and other war industries. See, for example, the British Association volume on *Labour, Finance, and the War*. But such critics not only overlook the broad social argument that Government departments must show a good example to private employers, but they forget the argument drawn from political necessity.

† The cost of the Army and Navy usually falls on the "Estimates." That is to say, in times of peace the heads of these departments present every year to Parliament detailed estimates of the sums required by each of the two

(b) 1915-16.

<i>Income.</i>		<i>Outgoings.</i>	
	£		£
Customs ..	59,606,000	National Debt	
Excise ..	61,210,000	Services (Old	
Estate Duties ..	31,035,000	debt) ..	20,338,000
Income Tax ..	128,330,000	National Debt	
Other Taxes ..	9,117,000	Services (New	
		debt) ..	39,911,000
		Other Consoli-	
Tax Revenue ..	290,088,000	dated Fund	
Non Tax Rev-		Services ..	13,239,000
enue ..	46,679,000		
		Total ..	73,488,000
Total Revenue	336,767,000		
Deficit ..	1,222,391,000	Supply Services	86,018,000
		Votes of Credit	1,399,652,000
Total ..	£1,559,158,000	Total ..	£1,559,158,000

(c) 1916-17.*

<i>Income.</i>		<i>Outgoings.</i>	
	£		£
Customs Duties	71,000,000	Fixed Debt	
Excise Duties ..	65,000,000	Charge ..	12,818,000
Estate Duties ..	30,000,000	New Debt	
Income Tax ..	195,000,000	Charge ..	114,436,000
Excess Profits		Other Consoli-	
Tax ..	86,000,000	dated Fund	
Other Taxes ..	10,125,000	Services ..	11,200,000
Tax Revenue ..	457,125,000	Total Consoli-	
Non Tax Rev-		dated Fund	
enue ..	45,150,000	Services ..	138,454,000
		Supply Services	86,926,000
Total Revenue	502,275,000	Votes of Credit	1,600,000,000
Deficit ..	1,323,105,000		
Total ..	£1,825,380,000	Total ..	£1,825,380,000

services during the current financial year. If these estimates are exceeded, application must be made to Parliament for "supplementary estimates." In war, however, detailed estimates are, in the nature of things, impossible. Hence the Government applies to the House of Commons for one or more Votes of Credit. The House, by passing a Vote of Credit, gives the Government power to spend up to the sum named in the Vote. For a full treatment of the whole subject, see Buxton's *Politics and Finance*, vol. ii.

* These figures are, of course, conjectural. They are the Treasury estimate for the year.

The four Budgets introduced since the beginning of the War have, with scarcely any exceptions but the Excess Profits Tax, been unfruitful in surprises or financial novelties. In part this has been the result of war conditions, because any departure from the system in operation at the time would necessarily have caused party contentions, which it is desirable to avoid. In part, however, it has been the result of the Coalition Ministry. For domestic purposes a Coalition Government is necessarily nerveless and impotent. The temporary supersession of Parliamentary Government which the Coalition symbolizes has given an ample rein to the bureaucrat, who prefers power to responsibility and implicit obedience to free discussion. But bureaucrats are rarely at home in the region of finance—in fact, all modern history shows that financial questions vex a bureaucratic Government more than questions of general administration,* and are often the main cause of its downfall.

In order of time the new taxes imposed by the four Budgets may be briefly summarized. By the Budget of November, 1914, (1) an additional duty of fourpence per pound was put on tea; (2) additional duties were placed on beer; (3) the income tax was raised to 2s. 6d. in the pound for the last four months of the financial year. By the Budget of July, 1915, (1) additional duties were placed on spirits; (2) the income tax was continued at 2s. 6d. per pound for the whole year; and (3) the super-tax was doubled. In December, 1915, (1) another fourpence in the pound was placed on tea, with complementary duties on coffee, cocoa, and other

* A German Chancellor finds it easier to survive a "Zabern" incident than to "square" the Conservative junkers on a question of additional taxation of land.

substitutes for tea; (2) a duty of 9s. 4d. per hundred-weight was put on sugar; (3) additional duties were imposed on dried fruits, tobacco, and patent medicines; (4) the income tax was raised 40 per cent. for the last six months of the financial year; (5) an excess profits duty of 50 per cent. was imposed (with certain exceptions) on all profits which exceeded the pre-war standard of profits by more than £200; and (6) a customs duty of 33½ per cent. on certain imports—i.e., motor-cars, musical instruments, clocks, and cinematograph films. By the Finance (New Duties) Act, 1916, a graduated excise duty was put on all tickets of admission to public entertainments. Lastly, by the Budget which became law in July, 1916, (1) small additions to and modifications of the new duties imposed by the preceding Budget were carried out; (2) additional imposts were laid on motor-cars and motor spirit; (3) the income tax was raised to 5s. in the pound, with important alterations in the scale of graduation on earned and unearned incomes; and (4) the rate of excess profits duty was raised to 60 per cent.

What then will be the financial position of the United Kingdom at the end of the War? No one can forecast the exact date of the conclusion of hostilities. Everything will turn on the kind of statesmanship dominant in the national councils during the next few months. Should the policy of the "knock-out blow" and war *à l'outrance* carry the day, matters of finance will have to take a very secondary place. If, on the other hand, moderate and reasonable opinion prevails, then we may expect to see something like the following situation. The gross national debt (that is including the pre-War debt of £753,000,000 and excluding loans made during the War to our Colonies and Allies, which may be

roughly estimated at £1,250,000,000) will be about £3,800,000,000 by March 31, 1918. To meet the annual interest about £190,000,000 a year will have to be raised by taxation, independently of any provision for the repayment of the debt. Such provision will be imperatively demanded on broad national grounds. The niggardly scheme for debt repayment on which Victorian financiers smugly congratulated themselves will be ludicrously inadequate in the new era. It is true that the blood cost of the War will necessarily have fallen on this generation, and the cost of pensions to disabled soldiers and to the dependents of those who have fallen will for many years be a heavy burden on the Exchequer. But this is not all we must pay. The patriotism that looks to the permanent interests of the Empire will not be content even with this record of achievement. On social, economic, and political grounds alike, a serious attempt must be made to pay off three-quarters of the national debt within the next thirty years. For the next ten years at least £100,000,000 ought to be laid aside every year for debt redemption. Further new sources of national capital expenditure can easily be foreseen which will in themselves add substantial amount to the yearly interest charge. Firstly, certain great national undertakings like the Channel Tunnel and the Forth and Clyde Ship Canal must be immediately put in hand. Then, again, the provision of a capital sum of £20,000,000 for housing schemes, announced a few weeks ago by the President of the Local Government Board, is likely to prove a serious under-estimate of the amount required for this purpose. The Housing scandal will not be set right, it may safely be said, without the expenditure of a sum not far short of £100,000,000. A

well-planned scheme for afforestation will require another £10,000,000 to £20,000,000. Again, in order to make adequate financial provision for the new schemes for settling soldiers on the land and to initiate a vigorous forward policy in regard to small holdings, there must be set aside a large sum for capital equipment, or the equivalent in interest must be forthcoming year by year for the next ten or fifteen years. Other causes of capital expenditure need not be set out at length. Several of them will yield a considerable revenue before many years have passed. All of them, it may be expected, will add considerably to the productive power of the nation. But for the moment the Chancellor of the Exchequer must include them as an addition to the dead weight of debt.

Further, no reduction in the ordinary civil expenditure of the country is probable for the next ten or twelve years. At the outbreak of the War the cost of the Army and Navy was in round figures £80,000,000 a year. For three or four years after the War that sum is likely to be substantially exceeded, and not until there has been a completely new political orientation is there any chance of its being permanently reduced. Supposing that Germany, as a result of its defeat, adopts a system of democratic and responsible Government, and recasts its military and naval expenditure accordingly, a large reduction ought to be possible. Suppose, further, that the cloud in the east does not grow larger, and that Europe again vividly realizes the meaning of the phrase "western civilization," this result ought to be even more assured. But in the meantime no reliance can be placed on delusive expectations about national disarmament. Ideals of international right and justice will not be reached in a day or without much travail or bitter anxieties.

But this is not all. If we allow £100,000,000 for the annual charge of the fighting forces for at least five years after the conclusion of peace, several other causes of increased expenditure must be taken into account. Firstly, the National Insurance scheme must be financially reconstructed or else scrapped altogether.* Secondly, the recent addition to the allowances for old age pensions must be continued and even increased. Thirdly, unless all the agitation for an improved educational system is to end merely in talk, nothing less than an addition of £20,000,000 a year to the cost of education can be expected. Altogether, then, the gross sum to be allocated to the national debt and allied services will probably be not far short of £320,000,000. In addition, a further sum of between £50,000,000 and £60,000,000 will have to be raised over and above the pre-War scale of expenditure.

Two questions at once arise. First, will our economic resources be equal to such a strain? Secondly, even if the amount of the nation's wealth left in the hands of consumers after the demands of the Government have been met, is sufficient to provide for immediate needs and to leave over a small surplus for foreign and colonial investment, how can the revenue required be most conveniently and equitably raised?

To answer the first question satisfactorily, both static and dynamic considerations must be kept in view. It is necessary to ask, (1) What is the total national income? and (2) Whether that income is likely to

* It was recently pointed out in the House of Commons that the original grants under the National Insurance Act, 1911, had been exceeded by £8,750,000, or nearly 43 per cent., and that some of the additional grants to cover the excess had received no parliamentary sanction except that of the Appropriation Act.

increase or diminish during the next few years. The soundest financial authorities estimate the national income at present to be close on £3,000,000,000. This represents a phenomenal rise in two or three years. If the rise in prices is taken into account, the actual increase is probably not more than £300,000,000 to £400,000,000, or, say, 13 per cent. on the pre-War standard. For our present purpose, however, it is not necessary to discount the value of the rise in prices. It is more difficult to forecast the course of the national income when peace returns. On the one hand, the adoption of the new productive methods will no doubt enormously increase the amount of wealth available. Everyone has been working at extraordinary pressure for more than two years. But the falling off in production caused by the necessary demands for more leisure will be more than compensated for by the freshness that will accompany the resumption of ordinary employment. On the whole, it would not appear to be an extravagant forecast to suggest that the national income will remain fairly stationary during the next five years (account being taken of the somewhat rapid fall in prices that will probably occur in the latter half of the period). Thereafter a time of steady expansion in the national income will set in. Is it possible, however, for the State to claim 20 to 25 per cent. of the entire national income? The generally received opinion among economists was till quite recently strongly adverse to such a claim. But in order that it may be done, all that will be required is that the national consumption should not increase for the time being beyond the pre-War scale. Allowing for foreign investment at the same rate as before the War, there will be a large enough surplus to meet the State's claim without

entrenching on the old standard of expenditure. All that will happen will be that the State will take the additional wealth produced by the community instead of its passing into private hands.

A more important question remains: How can the State make its claim on the national wealth for an estimated sum of not less than £550,000,000 without impairing the productive power of the nation or setting the balance of taxation unduly against any one class? The three chief sources from which the State has raised money since the War began have been, as we have seen, (1) taxation of economic surpluses—*i.e.*, profits arising out of the War; (2) increased income tax and super-tax; (3) small additions to the duties payable on commodities in general consumption. It is evident that the first source of revenue will disappear at the end of the War. It is a matter for argument whether the high rate of income tax may not retard the work of making good the depreciation of capital plant that has occurred during the War. The only additions to taxation which meet with no strong theoretical objections (though they will certainly encounter much practical opposition) are the increased duties on tobacco, beer, and other articles of consumption. The only thoroughly objectionable impost amongst them is the new tax on sugar.* It may or may not be necessary in order to limit consumption. But as a fiscal measure it is repugnant to every sound canon of finance. The rapid rise in the rate of income tax, though admittedly open to argument, is substantially justified by the enormous

* That is, omitting for the moment the $33\frac{1}{3}$ per cent. duties on certain imports of manufactured goods. The real object of the Government in this matter was not to obtain revenue but to limit extravagant consumption.

increase in national wealth which began just as the nineteenth century was closing. There is no immediate danger that the permanent interests of the country may suffer by too great a proportion of the national wealth being used for direct consumption.

Ultimately the problem of finance will present itself to the electors of the United Kingdom in this fashion. On the one hand, there will be a general measure of agreement that a high income tax and super-tax and a high scale of duties on alcoholic liquors, tea, coffee, etc., are reasonable and equitable in the circumstances. On the other hand, there will be a gap to be filled, caused by the inevitable ending of the excess profits duty. The great financial controversy of the future will centre round the method to be adopted for making good this deficiency. No deep foresight is necessary to see that two parties will at once appear. The "Tariff Reformer," defeated at three elections, but neither cowed nor impotent, will insist that a system of general duties on all imports is necessary for the country's financial needs. Tea, tobacco, and alcohol are already taxed up to the hilt. It is better to tax imports that have hitherto escaped taxation, especially where such taxation will give home producers a larger control of the home markets, and throw back on the foreigner part of the cost of the War. In the modern era every war has led to a revival of Protectionism, professedly on revenue grounds. The classical illustration is the instance of the United States at the time of the Civil War. During the Civil War a tariff averaging 47·06 per cent. on all classes of imports was placed on the Statute Book under cover of the national emergency. "The adoption and continuance of high protection was never reached after open discussion and a campaign of education among the

voters.”* Or, as the great historian of American fiscal legislation has put it: “The war had in many ways a bracing and ennobling influence on our national life; but its immediate effect on business affairs and on all legislation affecting money interests was demoralizing. Great fortunes were made by changes in legislation, urged and brought about by those who benefited by them. The tariff, like other legislation on matters of finance, was affected by these causes. Schemes for money-making were incorporated in it and were hardly questioned in Congress. When more enlightened and unselfish views began to make their way, and protests were made against the abuses and excessive duties of the war period, these had obtained too strong a hold to be shaken off.”†

The situation of the United Kingdom after the War will, of course, be very different from that of America after the Civil War. In one respect alone the difference will be striking. Unless the Coalition Government collapses before the last War Budget is introduced, there will be no opportunity for Protectionists to do more during the War than lay the foundations of an altered policy.

But the critical time in this country will come not during but after the War. As soon as sagging trade and declining markets begin to appear, immediately the cry will be raised that only by protective duties can we maintain our almost insupportable burden.

On the other hand, advocates of a forward social policy, and, in fact, all who do not make the maintenance of the political and economic *status quo* the

* Laughlin, *Industrial America*, p. 37.

† Taussig, *The Tariff History of the United States*, pp. 166-167.

pivot of their policy, will turn their eyes in another direction. The excess profits duty has been extraordinarily productive from the revenue point of view. The estimated yield for the current year (1916-17) is likely to be considerably exceeded. Now the excess profits duty is aimed at the profits made over and above the normal rate, owing to the existence of war conditions. It will be argued, therefore, that, while war is abnormal, it is only one cause of abnormal conditions. Whenever the average rate of profits in a trade or business is exceeded owing to the existence of circumstances unconnected with the personal skill of those engaged in it, then the State is entitled on behalf of the community to claim the whole or the greater part of the excess. Admit this principle and at once a large new field of revenue is opened up. Even in years in which there is a general depression in trade, certain industries may be reaping larger gains than usual out of special circumstances. Varying estimates will necessarily be made of the proportion of excess profits to the total profits obtained in a given year. But probably it would not be an overestimate to suggest that 10 per cent. of the gross profits earned in one year, and chargeable under the Income Tax Acts, represent an excess over and above the normal rates. In these circumstances, it would surely be possible for the State, by some carefully devised scheme, to secure the revenue it requires without putting a serious obstacle in the way of business initiative and enterprise.

These, then, are the two lines of possible development. We shall be bidden either to revert to a tariff system, or the principle underlying the excess profits duty must be continued after the War. One or two further reflections suggest themselves under each heading.

To deal first with the taxation of excess profits: the main difficulty is not to determine whether the average profits in a particular business are exceeded if all businesses be lumped together. The difficulty is to provide taxing machinery for securing these profits. A thousand obstacles naturally present themselves. The conditions of no two industries are alike—the average rate of profit in an industry is not a fixed quantity. If the State lays down an average rate for an industry, then will not this place a limit to enterprise, and reduce all industries to excessive dependence on the State? Arguments like these are formidable, but not conclusive. It is possible to suggest that a new method of getting hold of excess profits may be feasible, which will free the tax-payer of legitimate grievances he has to put up with under the present system. We have not yet quite grasped the spirit of Adam Smith's canon of certainty.* Hitherto the State has just taken such a toll of industry as it requires from year to year. Not till the middle of a financial year does the average tax-payer know precisely at what rate he will have to pay. This has probably a slight tendency to increase the cost of production in industry above what it would otherwise be. If the idea of an excess profits duty as a permanent source of revenue could be made operative, it might be done in this way. Every trade and industry should settle with the Government on an average rate of profit for a period of ten or twelve years. (If the Jevons cycle of good and bad years is continued, it might very well be taken as the period.) Then the Govern-

* "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor and to every other person" (Adam Smith's second Canon of Taxation).

ment should have the right to claim all profits earned in excess of that rate, up to say 75 per cent. This plan would avoid the penalizing of enterprise and productive skill. The present excess profits duty fixed a certain standard for each business. In the contingency which it was intended to meet, such a scheme is tolerably fair. But in the ordinary case it would be better to tax by trade than by the separate business unit. From the administrative point of view this procedure would be much simpler. It would not hamper struggling businesses earning less than the rate agreed on, and it would throw the burden of the tax on those firms best able to bear it. With 25 per cent. excess profits still left in their hands, these firms would have sufficient inducement to increase their output.

Either a scheme like this must be adopted or the additional £100,000,000 required to make good the loss of the War profits duty must be made up by a further graduation of the income tax. Even apart from the need for getting more revenue from this source, the need for amplification and readjustment of the income is urgent. The anomalies of income tax law are a disgrace both to the Treasury and to the legal profession.

On the question of a protective tariff, one or two things remain to be said. From the financial point of view, the great argument against the construction of a tariff is its unremunerative character. No tariff that could possibly be devised would yield an adequate revenue. The decisive merit of a tax for many a day to come is likely to be its productiveness. Even if all considerations of equity were put on one side, the total yield would be altogether inadequate. The 10 per cent. general tariff that was formerly the goal of the movement would be merely a drop in the bucket compared to

the sums that are now required. If Protection were to be advocated solely because of the financial value of the policy, it would not stand a moment's examination.

But the forces demanding Protection are mustering, under cover of the War, a strong, determined army, and their vigour is not the outcome of the financial attractiveness of their policy. A considerable section of the public, who, as the author of *Obiter Dicta* once said, "lead excellent lives but never use their reason," are inclined to accept without much scrutiny the idea that after the War some sort of tariff is inevitable. Ever since 1846 there has been an active minority attached to the older theories of trade and ready to ally itself with any political party which was prepared to include Protection in its programme. At the end of a great war such a party is for the moment exceedingly popular. Crowds of adherents come flocking to its standard for every kind of reason. One group, the least intelligent, but the largest, will say, "We have got on well enough for two years without trading with these precious Germans; we want nothing more to do with the accursed race. Let us protect ourselves by a wall of duties over which the Hun cannot jump." Another group less near to the political amœba, will raise the cry of the Empire's danger, and endeavour with much force to show that Imperial organization is an economic as well as a political affair. Another group will emphasize the importance of defence. By making the Empire self-contained we shall indefinitely increase its power of defence, and lessen proportionately the danger of foreign aggression. Again, all the old economic arguments will be revived to act as trenches round the new fortifications.

The most forcible new arguments for a Protectionist

system are first the national or imperial argument, and secondly what may be termed the essential industries argument. The Imperial argument is an adaptation to the modern circumstances of the British Empire of the ideas that underlie the protective system of the seventeenth and eighteenth centuries. Our national existence depends on security, and our security depends on our being able to do everything for ourselves—to make our house, as it were, self-contained. Under the shelter of a tariff we shall be able to safeguard our military interests, and to make the island Empire self-contained in regard to all materials required both in War and in peace. This policy may lead to less production of wealth than a pure Free Trade system. The question is one that can only be argued on *a priori* grounds, and on such grounds it will be candidly admitted that the Free Trader has the best of it. However, the transition to a Protectionist Imperial system can, it will be argued, be better made now than at any previous time. New methods that have been introduced into industry during the War, especially in the making of munitions, made necessary by the withdrawal of millions of men from reproductive employment, have proved that the same national income has been produced by a considerably diminished balance of producers. It is impossible to give any very exact estimates, but there seems every reason for supposing that production has increased from 15 to 25 per cent. per person engaged in industry. Provided that the system can be maintained, and allowing for a certain relaxation of war storm, on the return of peace conditions the gross annual income of the country will be increased without additional effort 10 to 20 per cent. above its pre-War level. This is therefore a favourable

time to introduce a system which, it may be frankly admitted, will cause a reduction of wealth.

The Free Trader must with equal candour admit that the question of a richer or poorer country is not final. That economic policy is the soundest which makes the British State the most efficient guardian of British civilization. But the economist cannot be pushed into the background as if his opinions were of no moment. He is entitled to point out that, while questions of production and distribution are not of the first order (though near it), Free Trade has a positive side, and that positive side will be applicable to the position of the British Empire in the world at the end of this war. For what will be our international position? From an overmastering loyalty to the freedom of the group of States that make up the European system, we shall have assisted, as we hope, in destroying the greatest danger that has ever menaced the communal life of Europe. We shall have been guided in our policy primarily by considerations of world welfare and not by the selfish interests of the Mother Country or any of the Colonies. To make good this result we have surrendered for the time being many of our most valued principles and traditions of Government. After the peace shall our ideals change? There are only three policies conceivable. The first is to withdraw from the affairs of Europe and the world, and busy ourselves entirely with the affairs of our island kingdom and Empire. This was the policy advocated by Cobden and Bright in 1854, and by Lord Stanley in 1866*—the common

* On taking office as Foreign Secretary in 1866, Lord Stanley said: "The justification of a policy of abstention from warlike interference in Continental disputes lies in the fact of the just conviction we entertain that example is worth more than precept, and by simply existing as we do—

heritage of early Victorian parties. All that is necessary to say in regard to this policy is that if the American President is convinced that this is the last great war that America can keep out of, it is puerile for us to imagine that we can ever again resume our policy of isolation. The second peace policy is to continue the War alliances as indissoluble economic groups, each group of Powers carrying on relentless economic war against the other. Under this policy a tariff would be inevitable, though, to be logical, there ought to be complete Free Trade inside each group. The third policy is the policy which the Foreign Minister has consistently supported—the policy, namely, of building up the system of Europe on new and unshakable foundations by creating a common partnership amongst the European nations, large and small. The only fiscal policy consistent in its entirety with such an international outlook is the policy of Free Trade. Therefore the economist who thinks of economic good in terms not merely of national welfare, but of sound international policy, is bound to keep Free Trade in the forefront of his policy. It is, indeed, more than a policy. It is a symbol—a symbol of international union and concord. For Britain to part with it would be the greatest encouragement the cause of international hatred had received for more than a century.

a free prosperous self-governed nation—we are doing more than can be done by a thousand dispatches or even by many campaigns to protest in practice against both a policy of despotism and a policy of revolution, and it lies also in the lesson, which our own history teaches, how often we have fought for objects that after all we did not secure, and which, if we had secured them, were not worth the price we paid."

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WAR FINANCE.

(a) For the actual changes see the four Finance Acts passed since the war began and the annual Financial Statements 1915, H.C. 16; 1915, H.C. 222; 1916, H.C. 50; and Financial Statements (Income Tax) 1915, H.C. 345, and 1916, H.C. 51. Cd. 7994 (session 1914-15) contains a summary of national debt history since 1835. All these Govern-

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IX

THE STATE AND THE CONTROL OF INDUSTRY

"The rights of Association and those of the State are still opposed to each other. The discussion is even now pending, and no one has yet succeeded in discovering the formula which shall guarantee them respectively without either enslaving the citizens or disarming the State."—LEON SAY.

"I WISH we could get a glimpse of the position of labour four or five years after the War. How will the wage-earning classes be employed? What will they be thinking about their own place in the community? Shall we have the same schools of thought and varieties of opinion as before the War? Will the War have proved itself to be a mere parenthesis or episode at the end of which the old struggles of classes will be resumed and the old systems of economic belief again control the minds of men? Or shall we have passed into a world of new ideas and new parties, the exact character of which no one can foresee? Above all, how will organized labour regard the State? As an enemy, neutral, or ally? As a hostile society to be actively opposed, an indifferent bystander to be treated with disdain, or as an expression of the wage-earner's own life—something he has made, something he can control?"

Questions like these are in the air. They have been the spoken or the unspoken thought of nearly every man who, whether drowsily or intelligently, feels the pressure of these unquiet times. In the newspaper press there

has been ample illustration of what a well-known economist has called the "controlling power of demand.* Prophecy about industrial development after the War has become a popular pastime, though perhaps the amount of writing on the subject has been in inverse proportion to the amount of real thought applied to it. Professors and preachers, literary men and business men, poets and journalists—all have their schemes for a reconstructed world of labour. The future is painted in sombre or garish colours according to the imagination of the author or the taste of the public for whom he is writing. But to interpret the future with any degree of success requires not so much brilliant qualities of imagination, or even the more sober qualities of a calm judgment and a profound historic sense. The most penetrating social and political forecasts have generally been luminous intuitions of practical statesmen of first-rate mental gifts. The charming pictures presented to us by novelists and prose poets are often wanting in the impression of reality that can only be supplied by the insight of men versed in affairs. Further, such reconstructions always carry us beyond the point where they can be of help for social purposes. To prepare with too much attention to detail for a distant future that may never come into being is unwise. That is the weakness of much idealist literature about the coming development of society.

But if it is unwise to rush too far in advance of social progress, it is certainly folly not to be ready for the next step. It is useless to expect a sudden jump from the present order of things into a well-ordered State where the masses of the people are prosperous and contented with their material welfare, and yet have gained in intel-

* E. Cannan, *Wealth*.

lectual alertness and spiritual vigour. Society, however, will move. The social thinker must therefore be at hand, like Greatheart, to smooth out difficulties and prepare the way for the next advance. To enable him to act as a capable guide along untrodden paths at least two qualifications are necessary: firstly, he must possess a vivid sense of history, a power to grasp so clearly the cardinal characters of the society with which he is concerned that the national or communal outlook has become an instinct or second nature to him; and, secondly, he must have a faculty for piecing a problem together again after he has treated it in its parts. The real student of society will always beware of confining social progress to one great aspect of it, of confusing the economic trend of events with the general social movement, of over-emphasizing the economic order as against the political, and the political as against the economic. He must see society "steadily and see it whole." In addition, he must have the practical capacity to gauge the public opinion of his time, frequently lacking in academic observers of social affairs.

Economic and political problems have one characteristic in common: both of them are essentially problems of control. Ever since the time of Hobbes it has been a commonplace of political science that beneath the struggles of contending parties there is continually being fought out this great question of sovereign authority. All political disputes, it matters not what their subject-matter, centre round the distribution of power in a State. But, though not so generally recognized as similar, the economic problem is in form the same. Just as Aristotle taught us to classify governments according as the ultimate power rested with the one, the many, or the few, so the character of an

economic society depends in the long run on whether final control rests with consumer or producer, or within the charmed circle of producers, with the owners of land, labour, or capital. At a glance, therefore, it will be seen that in studying the main outlines of any economic system the principal subjects of investigation are points like these: Through what defined channels does the economic life of a community flow? What ultimately determines the various forms of business activity prevailing in the community? Does capital fix the terms on which labour shall be employed? Does labour control the use of capital, or are they both in the hands of a third party such as land, organization, or the State? If one is superior to the other, does it rule as an absolute sovereign reducing to comparative impotence all the other forces in the society, or is its authority limited by agreement or by custom—is it subject to the binding rule of the State or to the free play of economic forces?

Such questions are all-important, but they may be put in three entirely different ways. First, the problem may be explored on its descriptive side. Here the question that arises is, What is the dominant economic power in the existing state of society? Secondly, it may be discussed from the point of view of tendency. Here the question is, What changes are going on in the structure of economic society and how will such changes affect the distribution of economic power in the society? What in the years that preceded the War was the dominant economic drift? How, in particular, was labour related, on the one hand, to the natural economic forces of society, and, on the other hand, to the State? In what ways has the War modified the tendency that prevailed before the War? Thirdly, it may be asked, In an ideal economic society, where would the centre of economic

power rest? Would it be definitely focussed at one point—that is, in the hands of one class, or would it be distributed amongst various economic sections in such a way that no one class should be predominant? And a fourth question, which arises out of the other three, is this: How far, in the light of the ideal we choose, can we modify existing tendencies, so as to get, if not the best, at least the nearest possible to the best?

It will be convenient to deal with the question of tendency first. Apart from the problem whether the control of labour means the control by the producer or by the consumer—a problem about which the authorized spokesmen of labour have no very clear views—labour is often represented as inevitably destined to be the economic master of all civilized States. There is, we are told, a logic in history, and the natural inevitable outcome of the economic development of a thousand years will be to place labour in the saddle. Just as the present war is a natural result of the system of government organized in Prussia by King Frederick William I., so in the economic life of Europe from the Middle Ages onwards there has been one persistent trend, which will in due time make labour master of the field. The history of that revolution may be briefly summarized in this way.

In the Middle Ages, as Lord Acton has said, “land was the measure and master of all things.” The owners of land wielded control alike over capital and labour. The use of free capital was only made necessary by the imperfections of the feudal system, and free labour was almost, if not quite, unknown. A change came as foreign trade developed. It stimulated the growth of capital, and the Black Death began the process of releasing labour from the economic despotism of landed property.

But what land lost in authority was gained, not by labour, but by capital. Gradually, from the fifteenth century onwards, the owners of land became more and more dependent on the possessors of capital. The series of rapid changes generally known as the Industrial Revolution hastened the process, until at the beginning of the nineteenth century capital controlled almost the entire industrial system. The agricultural protective tariff may perhaps be regarded rather as a kind of insurance against national disaster than a proof of the power of the landed class.* But the very success of the capitalist was soon to reduce him to impotence. The accumulation of huge fortunes, their transference during life and after death from those who made them to those who could not use them for want of ability or knowledge, introduced a tendency to separate the ownership from the use of capital. And in the opposite direction the setting up of works which involved too ample a supply of capital to be provided by a single capitalist, or even a small group of capitalists, led to a new economic agency. There came on the scene the organizer, the business man, called by the economists the "entrepreneur." To him control was gradually transferred, so that to-day it is not the capitalist, but the organizer—not the man who owns the capital, but the man who controls the use of the capital—whose position is pivotal. It is the organizer who secures the capital and labour and fixes

* Political power lags in the rear of economic power. While a class is establishing itself as an economic power, it generally has little influence in politics: that comes later, when its economic power, if not on the decline, is at least not growing rapidly. The agricultural classes had never so much authority in Parliament as while the manufacturing system was being established. The Corn Laws, if a sign of the political strength of the landed interests, were also a sign of their economic weakness.

the remuneration of each—not, indeed, like an arbitrary despot, but because he stands at the meeting-place of an indefinite series of economic forces, and directive power is in his hands.

Land and capital have, therefore, it is argued, served their historic missions. The control by land, most unsatisfactory of all to us moderns, because leading so manifestly to a sterile social State, was necessary to keep civilization from utter ruin on the collapse of the governing power of Rome. Capital enabled science to get a start, and so enabled some known and many hitherto undiscovered commodities and forces to be made serviceable for human culture and commerce.* It indefinitely increased the output of national wealth. The organizer has continued the work of the capitalist. Betterment of labour conditions is either the result of labour's own efforts or those of the State as a whole. But better utilization of the productive powers of Nature, more ample benefit from a given amount of capital, the provision of more abundant and varied food-stuffs and articles of all kinds, are some of the advantages society owes to the organizer. His success is best seen reflected in the recent enormous growth of the national income. Productivity of output rather than increase of welfare is his object as it was of the capitalist. The organizer, if not the slave of the capitalist, is under the influence of ideas we call capitalistic. The new form of industrial control has grown up in a capitalist atmosphere.

* One reason why Francis Bacon's researches were so fruitful as compared with Roger Bacon's lay just in this. The latter lived in the thirteenth century, the former in the sixteenth and seventeenth centuries. By this time there had been considerable accumulation of capital. See Cunningham, *Growth of English Industry and Commerce*.

If, dissatisfied with the preceding forms of industrial control, and still searching after a single economic sovereign, we seek for a new method of control which shall combine the advantages of the present system with other benefits of its own, we seem to find only two possible substitutes competent to undertake the task: (1) the State or community, (2) labour. Hitherto the producer has had it all his own way. Whether land, capital, or organization has been predominant, the centre of power has remained in the hands of the producer. Sometimes the normal economic forces working in favour of producers have been assisted by the concurrent legislation of a State controlled by producers either as a whole or by a special group of them. Sometimes the State has simply stood aside and allowed the working of economic laws to go on unchecked. But the exceptions to the rule that the State has favoured the producer are few and unimportant.* Is it possible for the modern State to reverse the process by organizing consumers so that they can put a limit to their exploitation by producers? Can the modern State, called in like a new world to redress the evils of the old, organize the consumer against the producer and hold the balance fairly against the undue predominance of any single class of producers? Or will the State best serve the interests of the whole community by itself undertaking the work of production, by bringing land, labour, and capital into one common system and endeavouring so to dovetail their respective interests that the welfare of all separate classes shall be as great as possible? The only alternative to the active intervention of the State would seem to be to give the only remaining untried class of

* For application to a specially important industry see Nicholson: *The Corn Laws*.

producers the central position. Under such a system labour, instead of being, as hitherto, employed by capital and organization, would itself employ capital; it would determine what should be produced; it would hire the necessary capital and business organization at fixed rates, and would absorb the surplus. In other words, labour would be as central as organization is to-day. Everything would pass through the hands of labour. The other factors in production would be employed by labour and would yield up to labour all gains that came into existence through the mobility of the economic system and the chances of life.

From the point of view, therefore, of historical tendency, we seem to stand at the parting of the ways. The control of industry by the owners of land, capital, and organization has been tried and found wanting. Human welfare demands a new and better economic system established on a different basis. Such a basis can apparently only be found either in organized labour or in the State. It is necessary, then, first to examine the existing forms of industrial organization to see whether labour is ready for taking up this task; and, secondly, to inquire into the extent of the State's supervision of economic life as it was before the War, and as it has been affected by the War.

In his *Evolution of Industry* Professor Macgregor writes: "The end of the nineteenth century shows us in the field of industry three main types of government, all of which are highly developed results of the combination movement. There is, in the first place, the wide field of capitalist industry, in which the problems of competition and of adequate capital have been met first by joint stock, and in most recent times by the Trust. There is, in the second place, a field of industry

also under the government of private capital, but the control of which is so widely spread among the people that it forms an industrial democracy rather than a capitalist undertaking. This is the field of co-operative industry, limited as yet to those goods of which the working-class shareholder perceives that he is a direct consumer. And, in the third place, there is a growing amount of industrial government which is in form of a public kind by the development of schemes for municipal trading. All these are growing in strength as the twentieth century begins."

All the three types of government to which Professor Macgregor here refers not only developed in the nineteenth century, but, except the Joint-Stock Company, they originated in that century. It is an economic commonplace that the characteristic of the last hundred and fifty years has been the production of wealth on a large scale. Every economist has justified the change—the increased command over natural goods and forces, the endowment of the community with resources hitherto undreamt of, the greater return to labour and enterprise, that have been the outcome of scientific knowledge applied to industry. Many amongst the modern economists, however, have not hesitated to point out the compensating disadvantages—the monotony of toil, the blackened earth and sky of the industrial towns, the extremes of wealth that have hitherto been inseparable from it. The further we get from the beginning of the Industrial Revolution, the more pronounced the tendency to large-scale production becomes. At the opening of the nineteenth century, except in a few industries like banking and foreign trade, even partnership was uncommon, and Joint-Stock Companies, except where directly authorized by

statute or charter, were altogether unknown. It was the individual—the individual employer and the individual workman—who between them supported the growth of British industry and commerce when its increase was most rapid. After the first thirty years of the nineteenth century had passed, a change began; partnerships in banking and other industries gave place to Joint-Stock Companies, and individual concerns were transferred to the management of groups, in spite of the defective law of partnership that prevailed till Bovill's Act was passed in 1865. After that time the joint-stock principle, which had been applied with increasing success in a limited range of businesses, spread with lightning rapidity from one industry to another, until in large sections of industry the individual form of ownership was as much unknown as if it had never existed.* Another generation passed and a new step was taken. Just as individual concerns had fused their businesses into partnerships, and in their turn many partnership concerns had been merged into Joint-Stock Companies, so now there appeared the union of companies, called the Trust. Hitherto attempts to monopolize an industry in all or certain of its branches had been effected by agreements† between various groups with an independent constitution and status. The Trust was a new phenomenon. It meant that the consumer could no longer rely on the competing and conflicting interests of distinct groups of producers to insure him the possession of commodities at the cheapest rate at which the economic forces of the time could

* For an interesting survey of the business world from this point of view, see Hobson, *The Industrial System*.

† For an account of such agreements, which often prepare the way for the formation of a Trust, see Ashley (ed.), *British Industries*, chapter on Trusts.

produce them. Competition was giving place to monopoly, national or even, in the case of certain industries, world-wide in its scope. The Trust meant economic absolutism.

Partially to express a moral ideal, practically to preserve a democratic ideal in business, the co-operative movement began when the general business development already outlined was passing into its second stage. Its growth has been scarcely less striking than that of the one-man Trust. But it is to be noted that the two movements do not overlap. Joint-Stock Companies, and the Trust have proved that for efficient production centralized economic control is the best method except in a few industries. The co-operative movement has entered only a very narrow section of the productive field. What it has proved is that in certain stock lines of industry the middleman may be dispensed with, and that, when consumers have a clear idea of what they want, and when their needs can be standardized in a rough-and-ready fashion, the work of distribution can go on smoothly enough on co-operative methods. Co-operation has the strong points; it has not yet got over the weak points that must be surmounted if democratic management is to be an industrial success. In any case, it merely touches the fringe of the problem.

If the Trust represents the triumph of economic absolutism, and co-operation a somewhat limited success for economic democracy, municipal enterprise may be said to represent a developed form of economic bureaucracy. On the other hand, it has the possibility of greater permanence than either of the former. It may be a paradox, but it is a truth that co-operation is the extreme of individualism. Co-operators are a fortuitous collection of individuals, between whom there

is no common bond except a belief in economic co-operation. The Trust has not been a dominant industrial form long enough to show whether it is the final business unit of an era of production on a large scale, though if historical analogies are worth anything, no century-long history awaits it. But in being connected with the organization and government of a town or city, municipal enterprise may be said to have a chance of considerable permanence. However unified the civilized world may become by the growth of federalism and the development of a great international State organization, the city is bound to remain a centre of the world's trade, the home of man's best thought and activities. Hence an economic organization which is intimately connected with the communal organization of the city will have the prospect of a long life. If it were possible to revive the City State of the Greeks in everything except slavery and their tendency to civil war with other City States, municipal management would just be what was needed to bring them up to date and adapt them to the requirements of an era of large-scale production. But, in the first place, the kinds of business that are suited to municipal management are limited; and, secondly, no success has yet been achieved in grafting economic democracy on political democracy. The administration of municipal industries is still far from being democratic. City government, as developed in the nineteenth century, was provided with a representative organization modelled on the national system. It may be possible to run industry on democratic lines, to adapt a new kind of electoral control to the manufacture of goods, the regulation of markets, the organization of wages and prices. But on *a priori* grounds, which seem to be confirmed by

experience of municipal management, we should expect that such democratic industrialism ought not to be mixed up with or be an offshoot of the political democratic machinery that was created for quite distinct purposes.

In none of these three great movements are the ideals of labour and economic democracy at all satisfactorily realized, and it is because of their failure that labour unrest became so vocal in the years preceding the War, and that its strident tones seem to many acute observers to boom even now above the roar of howitzers and maxims. In the constitution and management of the Trust labour has no say. It is as helpless as a Parliament before Queen Elizabeth or a Reichstag before Bismarck. Strikes may at some exceptionally opportune moment effect a sudden improvement in wages and a betterment of the general standard of life. But not the most supremely successful strike brings labour nearer to the council chambers of the Trust, or places its leaders amongst the inner ring who dictate prices in the world's markets. Labour, indeed, manages the co-operative movement. In the eyes, however, of most thoughtful leaders of labour, co-operation suffers from two defects in this connection: first, as we have already seen, it is essentially a middleman's enterprise; and, secondly, it does not satisfy the half-conscious, half-unconscious craving of every man to be a producer. To its infinite credit labour has never taken the superficial view generally outlined in books of political economy, that "consumption is the end of all economic activity."*

* This by no means involves assent to the protectionist idea that the interest of the producer ought to be the chief concern of the State. The end of every economic process is necessarily consumption. Consumption is the last link in the chain. But the end in time is not necessarily the moral

The suppressed sense of creative effort demands an outlet; under the existing system energies are penned up without a chance of getting satisfaction. It is only when man controls by voice, vote, or suggestion, that he feels himself truly at home. Co-operation is destined to remain, as it were, a "side-show" in the labour world. It will always attract men of homely sterling worth, who rely rather on character than on the more daring qualities of mind required for business enterprise. It will not give a sufficient outlet for the constructive powers that are latent probably in every man and certainly in millions of wage-earners, and that, in spite of centuries of enforced disuse, have not been completely atrophied. Nor, if co-operation fails in its sphere, is municipal enterprise at all equal to providing a thorough solution of the problem. Municipal government is likely to remain chiefly political in the narrow sense of the word. It may be more satisfactorily organized for controlling certain branches of industry than it is at present. But if, in the sixteenth century, the guilds declined before the growing economic importance of the nation, we are not likely to witness in these days of international relationships more than a limited revival of civic industries.

At first sight, therefore, it would appear that in the three forms of organization which represent the most up-to-date development of business life labour is still nowhere near the central controlling switchboards. The principal successes of labour, it may be urged, have

end. Consumption is the end of economic activity in the same sense in which death is the end of life. The best economic system is not merely a system in which there is abundance of wealth for all; it is a system in which from day to day a man may in the pursuit of livelihood employ all his intellectual and moral powers.

been won outside the economic field. It has made enormous strides in politics, in its Trade Unions it has built up powerful welfare organizations, many social boons have been yielded to it by a reluctant State, and, most notable of all, it has acquired a status and dignity such as it has never before enjoyed. Up to the present, however, its industrial success is no greater than the immediate political success of the Revolution of 1688. The latter established the English "limited monarchy." All that labour has been able to secure is a "limited capitalism." The social code, contained in a series of chapters from the Factory Act, 1801, to the Trade Boards Act, 1909, and the National Insurance Act, 1911, constitutes the wage-earner's "Bill of Rights"; that is, it defines the terms on which the existing system is permitted by the State to do its work. In every contract of employment it is an implied term. The employer cannot escape it; his consent need not be given. But the employer and capitalist remain. The questions labour is everywhere asking may be put in this form: First, as the English Constitution has proved to be capable of being transformed into a democracy under the forms of a limited monarchy, is it possible for the democratic government of industry to be set up under the forms of the existing capitalist control? And, secondly, if the employer has to be expropriated, by whom should it be done? By the work-people engaged in an industry or by the State? The former is the syndicalist, the latter the Socialist solution of the problem. Before, however, an answer can be given to this question, it is necessary to sketch a little more in detail the recent history of State action in dealing with social questions.

Adequately to describe the part played by the State

in the organization of trade and labour during the nineteenth century would involve condensing the greater part of the statute-book and sketching the history of a complicated administrative system. Many chapters in the economic code have grown out of the experience of the business world—as, for example, the laws regulating partnership, bankruptcy, insurance, Joint-Stock Companies and the like. Other chapters represent the State's response to the demands of consumers for protection against the rapacity of producers and middlemen, against adulteration, and against fraud in all its varied forms. Still other chapters have been the result of the humanitarian ideals that underlay such movements as the early evangelical movement.* In recent times a considerable volume of social legislation has been due to the investigations of skilled observers, some working independently, some in the Civil Service, and others engaged in University research. From sources such as these the developed body of Trade-Union, labour, and social legislation has been built up step by step. The three lines of Parliamentary and executive action which have done most to create and consolidate the labour movement are: (1) the Trade Union Acts from 1871 onwards, which gave the Trade Unions a certain status—at first very ill-defined and even now not at all satisfactorily determined—and which enabled them to act as guardians of the primary labour interests; (2) the repeated interventions of the State to settle disputes regarding wages, hours of labour, or general conditions of employment; and (3) the code of laws for the amelioration of labour conditions, which has indirectly eased the path towards combination and

* See Dicey, *Law and Public Opinion in England during the Nineteenth Century*.

has brought the Trade Unions into increasingly close contact with the State.* The limits imposed by the State on their liberty of action have no doubt hampered the conduct of Trade Unions in many ways, but opposition to further extensions of their activity has not been prompted entirely by economic motives. Some influence, at least, must be allowed, as Professor Geldart has shown, to the lawyers, who, owing to the history of English law, have never felt happy about bringing a Trade Union into any recognized legal classification, and to the consciousness of the State that too powerful associations growing up within it might be apt to challenge its authority. However, it is mainly by executive action taken in particular crises that the State has been directly brought into touch with labour. Intervention by the State to mediate in trade disputes began in 1896. At first exceptional, it has now become the generally accepted method of settling controversies which master and men have failed to settle amongst themselves. The reason why it has become common is obvious. The economic fabric of the nation becomes more and more united every day; dislocation or stoppage in one industry gives rise to a series of reactions which are felt over the whole field of industry. This is true not only of key industries like the mines and railways: the economic interdependence of the entire range of industries grows every day—it is visibly increased by the need for speeding up during a great war. Hence, in a grave industrial crisis legislation becomes necessary,

* The National Insurance Act, 1911, *e.g.*, has led to a tremendous increase in the number of Trade Unions, and at the same time, by enabling Unions to become approved societies under the Act, and by assisting them with the grant of insurance funds and supplementing their unemployment benefits, it has brought them into closer touch with the Government.

and, even more necessary than legislation, prompt executive action. The Arbitration Act, 1896, set up a permanent board, to which employers and men could go in case of friction about wages, hours of labour, or any other matter. More frequently, however, intervention has been due to a particular industrial difficulty. Sometimes, as in the Coal Mines Minimum Wage Act, 1912, a special Act has been required to meet a special emergency. The State, however is not armed with compulsory powers to fix wages or settle disputes by arbitration, and, in fact, a compromise is generally the result. Sometimes employees, ignorant of the state of trade, ask more than employers can afford to concede. Sometimes employers, faced with a demand for increased wages, take umbrage on some petty point of prestige, and negotiations are prolonged and difficult. The force that lies behind the State in the absence of compulsory powers is only that of moral suasion. The State generally represents ordinary public opinion, and as the public are not interested in the mass of disputes, therefore the decision of an arbitration tribunal often means simply that the State has set its seal to a practically arranged compromise. On occasion, however, either on account of the number of men employed, or the character of the industry, or the personality of the leaders on one side or the other, the public becomes intensely interested in a strike or a lock-out, and then the settlement arrived at really represents what the average public opinion of the time thinks is a fair way of bringing the combatants together. Even here public opinion is often to a large extent formed by the Press, which is itself frequently ill-informed and misleading. If serious labour troubles arose in certain industries at the present moment, it is probable that the public would

be quite prepared to see prompt decisions enforced by executive authority, and, if need be, State assumption of the industry in question, rather than suffer the inconvenience likely to be caused by a prolonged stoppage of work. It is true that the public often take narrow views. No serious industrial dispute can occur without the opinion being expressed in some quarters that arbitration in trade disputes ought to be made compulsory. But to deny the right to strike is to set a definite limit to the power of the Trade Unions. It may be justifiable in countries like Canada or Australia, where labour may hold the reins of Government and the influence of labour ideals in administration corresponds to their influence in the community. Even in these new countries it is doubtful whether it works so much for the advantage of the wage-earning classes as for the convenience of the State. But in one of the old European countries where government is imperfectly democratic and carries in its structure deposits accumulated from the feudal age onwards, and where the State is certainly not in the hands of labour, compulsory arbitration would mean an incalculable loss of power to the Trade Unions, even if they did not find it to be the practical surrender of a most cherished civil right. The right to strike would have been given up when it had scarcely been won.* The guardianship of labour would have been put into the hands of the State, and Trade Unions become semi-philanthropic bodies, lacking in effective power of control.

* The right to strike was not really secured till the Trade Disputes Act, 1906. For illustrations of the legal obstacles in the way of a strike that have been got rid of by that Act, see Lord Lindley's judgment in *J. Lyons and Sons v. Wilkins*, reported in Law Reports (1899), 1 Chancery Division, pp. 822-23. Lord Lindley based his judgment in that case on the traditional individualism of English law.

Immediately before the War the authority of the State was perceptibly declining. Its legislative output was not diminishing nor was the effective power of the executive less than before. But the prestige of Parliament seemed to be for the time being on the wane, and complaints about the futility of political action began to come from quarters not generally associated with revolutionary ideas. In the economic field syndicalism began to be rather fashionable, and syndicalism was a reaction against the extension of State influence. Coming from a foreign source—attacks on the State have usually in England been based on simple individualism—it included in its theory anti-democratic as well as democratic elements. In France syndicalism arose out of opposition to the excessive centralization of French Government; it combined ideas gathered from the political theories of Rousseau, the plebiscitary republicanism that produced Napoleon III. and the equalitarian socialism of Marx. But in essence it was based on the notion that labour should control the production process, as it could not do under a régime of state socialism. “The will in every factory must be the will of the labourers themselves—a will to which they can submit, yet remaining free and voluntary agents. Every expression of authority imposed by individuals or bodies foreign to the wage-earning class produces the mechanical features so much to be avoided; and it is precisely because State Socialists fail to recognize this truth, and attempt to substitute for the external will of capitalism the equally external will of the State, that their solution of the industrial problem can never satisfy the needs and aspirations of the labouring classes.”*

* Estey, *Revolutionary Syndicalism*, p. 123.

English syndicalism differs from French syndicalism in being a much less carefully worked out conception of politics. In England so far it has rather been a spirit than a formal economic or political doctrine. It has linked itself up quite naturally with that criticism of existing institutions to which, as will be seen later, so much of the strength of English democracy is due. In a syndicalist society all the mediæval and autocratic ideas inevitably associated with the existing State would be swept away, and a new departure made under a system in which labour, and labour alone, would hold power. The State would either have disappeared or it would be represented by the federated associations of producers, to whom would belong the ultimate control of industry.

In the economic field, then, there were three powerful tendencies at work at the outbreak of war: (1) the economic individualism that in the early nineteenth century had provided reformers with ideas and a programme, but was now the watchword of the conservative opposition to change; (2) the State Socialism most clearly outlined in the policies of the Fabian Society; and (3) the syndicalist tendency to reduce the responsibilities of the State as far as possible, and to concentrate control in the hands of producers' groups. To these, perhaps, might be added a fourth: the tendency to revert to a kind of mediæval organization based on status—a tendency scarcely in any sense popular, but powerfully represented in certain classes of society and a certain type of journalism.*

The current of popular opinion as to the course of events after the War has run in two main channels. As often happens, narrow economic considerations

* *E.g., The Morning Post.*

clash with broader political considerations as to the nature and end of the State. If no attention need be given to the character of the State we aim at creating, then economic ideals will govern the situation. The popular theory at the moment is that the close of the War will witness an enormous expansion in the economic powers of the State. Dr. Cunningham, for example, writes: "The War has brought the activity of the Government into fresh play: internal affairs have been administered or interfered with in the interest of Government, as was never the case before. There have been experiments in the fixing of prices, wages, and profits by the State, and there has been a considerable movement towards something in the nature of State Socialism and national control over the instruments of production."* This theory that the tendencies towards State Socialism have been permanently quickened by the War is generally supported on two grounds. In the first place, the War, it is alleged, has revealed many serious weaknesses in our national life which cannot be set right without giving the State increased control both over the individual and over society. At the beginning of the War the State was slow and inert, and perfectly unfitted to cope with a vigorous and highly organized enemy. Defective economic arrangements are also said to have prolonged the War, thereby causing not only incalculable loss in blood and treasure, but burdening large sections of the people with severe and unnecessary hardships. Food prices have risen 60 per cent., not mainly because of a positive shortage in reference to consumption, but owing to the existence of powerful combinations, which have been able to hold up supplies on their way to the consumer. On the

* *Credit, Industry, and the War*, p. 254.

children's milk and the adult's meat rich profits have been reaped by unscrupulous middlemen. Further, supplies of essential necessities like dyes and zinc have been suddenly cut off, and are unobtainable in anything like the quantities desired, to the loss both of our civil population and of the armies in the field. In this case freedom of international exchange has led to undue dependence on foreign countries for some of the essential raw materials of industry, with the result that war has brought about a temporary shortage in vital products. The State has made free trade a fetish, and lack of organization, whether or not it has meant increased wealth in time of peace, has perceptibly weakened the nation in time of war. So accustomed had Englishmen become to peaceful conditions, and so oblivious to the necessities of war, that they pushed the principle of free exchange to a point inconsistent with national safety.

Secondly, not only has private enterprise failed in time of war to meet the needs of the community, but the action of the State during the War is regarded as showing that at the end of the War State control must be more ambitious, stringent, and thorough-paced. At the outbreak of war the State intervened to prevent a collapse in credit; it entrusted the management of the entire railway system of the country to a committee, called the Railway Executive Committee, working in close association with other Government departments; it set up a Commission to buy up all the immediately available supplies of sugar and all the additional supplies coming to the market; it took on itself the burden of insuring the mercantile marine against war risks. So swift was its action in these and other respects, that Mr. Arthur Greenwood is justified in writing: "In a

month Britain came nearer than ever before to being a co-operative commonwealth."* As the War has gone on, the effective control of the State has substantially increased. It has maintained industrial peace amongst the wage-earners, it has imposed an excess profits duty on the capitalist, it has succeeded in a few months in compelling the Trade Unions to abandon for the time being the protective regulations framed during years of bitter struggles with the employing classes. It has given further assistance to Trade Unions in respect to unemployment benefit, it has extended the provision of unemployment benefit to industries not originally intended to come within the scope of the scheme, it has interfered in a thousand different ways with the normal course of industry by compulsory measures like the Munitions Act, and by encouraging masters and men to frame voluntary agreements regarding output and wages. By all the arts of persuasion and cajolery it has succeeded in getting its every desire carried out. All the ways of moving public opinion so aptly described by Mr. Graham Wallas,† and some that even he never guessed, have been employed by the State to make the economic machine run smoothly, and to induce the public and wage-earners alike to accept changes to which they were vehemently opposed. Our statesmen, if not, with the exception of Mr. Lloyd George, great warriors, have at least proved themselves to be consummate students of political psychology. Never since the dawn of history have we seen the State so manifestly imposing its will and its authority on the community. Never has there been less opposition to its control. After the War it will possess almost unlimited

* *The War and Democracy*, p. 311.

† *Human Nature in Politics*.

authority, because, not only will it have tested the extent of power it may use, but it will have the prestige of having guided the community through stupendous dangers to safety, honour, and peace.

Still further, if the power of the State has grown during the War, the need for its authority will not be less, but indefinitely greater at the conclusion of peace. The tremendous problems already dealt with in some of the preceding chapters will demand the utmost energy and sagacity of which the nation is capable. Economists are not agreed as to the length of time that will elapse before a period of bad trade and declining employment sets in after the War. Some anticipate it immediately after peace is declared, others think it may be postponed for two, three, or even five years. But probably all are agreed that, unless the demobilization of the army is effected with caution and adequate provision is made to prevent an overwhelming economic collapse, the dangers of serious disturbances, even to the point of revolution, are as real here as in other European countries. The attempt to put into operation the resolutions of the Paris Conference on external trade may in itself daunt the hearts of the boldest statesmen. But when to the management of external trade there are added the complicated and thorny problems involved in resuming ordinary civil and industrial life after so tremendous an upheaval, the task seems overwhelming in its magnitude. Only the State can undertake such a task, and only a State capable of equipping itself from crown to foot in the shining armour of economic organization.

These arguments are backed by trained minds as well as by popular journalists. They fit in very well with the powerful tendencies towards collective administration of economic life in operation before the War began.

But in many ways they are more plausible than substantial. Their fundamental demerit is that they are based on what is evident and temporary, on the fleeting needs and not on the permanent interests of the State. As commonly argued, the plea that increased control by the State is inevitable is apt to combine the collectivist ideals of modern times with the mercantilist ideals of the seventeenth and eighteenth centuries. In many cases it is difficult to say which set of ideals predominates. We are encouraged to exalt the power of the State, firstly by those who regard War as a normal condition or necessary occurrence in the life of society,* and a period of peace as mainly a preparation for war, and secondly, by those who regard all war as an insensate disturbance of the social order. The enthusiasm for State action after the War comes both from quarters that may be called neo-mercantilist and from pacifist quarters. The modern mercantilist may not use the same phraseology as his seventeenth-century predecessor, but his meaning is the same. Underlying both conceptions of national life is the theory that the real business of the statesman in time of peace is to develop the nation's resources so that, first, its utmost power may be exerted in war, and that, secondly, during war the national welfare may not be seriously imperilled by shortage in men, money, food-stuffs, or munitions. The history of the world is pictured as a moving panorama of constantly fighting nations. Hence "Organize the nation" becomes the cry. Then and then only can a large and healthy population be adequately reared and maintained, and civil life kept vigorous and sound. But

* It was phrased a few weeks ago in the literary columns of a leading morning newspaper in this striking way: "War is the divine sovereign remedy for the ills of society."

it is completely forgotten that modern economic life cannot be organized on mercantilist lines. The engineer, the trader, the scientist, have made that for ever impossible. We are not concerned here with the truth or falsity of Mr. Norman Angell's theories, but, whatever the soundness or error of his main argument may be, Mr. Angell has rightly discerned that the main, permanent, and irresistible drift of the modern world is towards freedom of international exchange and a growing world-wide nobility of capital and labour.* It was while probing the errors of mercantile writers that Adam Smith discovered the truth on which economic science rests—viz. (to use the words of a recent author), "Economic relations overstep political boundaries and have become world-wide, while States are relatively local: commerce is cosmopolitan, while States are, roughly speaking, national."† Of course, Adam Smith admitted that "defence is more important than opulence"—that is to say, that, at whatever price, the national existence must be maintained. The soul of a nation is worth preserving at any cost in men and wealth. But Adam Smith certainly did not mean, as he is often misrepresented as meaning, that the whole interest of the State lies in defence. Security is not the end but only the necessary condition of a vigorous national life. To sacrifice, for the sake of security, all that makes a nation's life worth preserving, is to destroy the very possibility of human progress. To hold that the economic organization of the State must be remodelled so that it will provide a maximum effective power for war is to set up the false instead of the true

* For a powerful criticism of Angell's economics, see Jones (J. H.), *The Economics of War and Conquest*.

† Clay, *Economics for the General Reader*, p. 379.

ideal of nationality. Further, mercantilism was not defensive, it was essentially aggressive. In regard to international life this is almost self-evident. "The whole spirit of mercantilism implied ill-will and continual misunderstanding between nations. Every Government strove against every other for the capture of markets, and every citizen who was in any way connected with foreign trade was taught to regard the foreigner as a potential enemy. In this way a feeling of hostility and mistaken jealousy was spread through whole peoples."* The weakness of mercantilism in the internal life of the State, if less apparent, was none the less real. In attempting to regulate the minute details of industrial life, the State undertook a task beyond its capacity. The failure of its efforts was plain enough in ordinary times, but in a time of severe political or economic crisis, such as the political revolution in the seventeenth, and the economic revolution in the eighteenth century, the whole machinery of State was involved, and a discredit of Government in general followed, from which we have scarcely recovered even yet. The new mercantilists will, of course, reply that the State to-day is infinitely stronger than in the seventeenth century, that it can command wealth and ability to a greater degree, and that its organization is more flexible and adaptable than formerly. But, on the other hand, mercantilism, if capable of being revived as a system, would have to face changes more widespread and more rapid than have ever been known except during the Industrial Revolution. It is a common error to imagine that we are soon going to get into a more stable order of society because all the social changes

* Conrad Gill, *National Power and Prosperity*, p. 50.

necessitated by the Industrial Revolution will have been completely carried out. Science, however, has not come into social life to make it more stable. Year by year, as invention succeeds invention, changes must inevitably occur in the character of employment, in the distribution of industries, in the general social *milieu*. The experience of the past suggests that these changes will go on at an even quicker pace in the future. It may be that science, like a spendthrift, will squander the resources of humanity, and the available supplies of raw material that can be extracted from the earth may "give out" sooner than we think probable. But this is speculative. So far as social progress goes, in the immediate future there is little prospect of scientific research making for stability, and mercantilism, which must always tend to organize the *status quo*, is, therefore, an impossible social system. Further, mercantilism is based on a theory of government which leaves no room for democracy. To this point reference will be made later.

The other group that looks forward to further State control of industry comprises all supporters of a more or less definitely collectivist ideal. This is not the place for a full discussion of collectivist theory. It is sufficient to notice how certain phases of collectivism are linked quite naturally with mercantilism. Mercantilism was a system of organized social life; so is collectivism. Mercantilism aimed at giving all classes in the community security of life and a definite command over economic goods; so does collectivism. Mercantilism meant the organization of national resources for a definite end; collectivist writers inform us that their scheme is no different. To collectivism, as to mercantilism, the nation is the unit. No other form

of collectivism, based either on a smaller group than the nation or on an international group, has yet been shown to be workable. In fact, though collectivism is in essence an economic doctrine, it can scarcely take definite shape without becoming political. The State is certainly the only institution strong enough to carry out all the demands of a collectivist system. The only fundamental differences between the two systems of social life are twofold: (1) Mercantilism contained no doctrine of equality. The notion of equality was the gift of the French Revolution.* To the mercantilist the ideal is an organization of society on lines essentially similar to the division of classes stereotyped in the feudal system. To the rigid collectivist one class and one class alone should exist, for all classes should be on a footing of equality. (2) The end of mercantilism is war—it is, as has been said, a policy intended for aggression—while collectivism aims at utilizing the combined resources of mankind for the further development of the arts of peace. To the modern mind, apart from a few mediæval survivals, the latter is the more pleasing ideal. But the main criticism of all proposals for thorough organization of national resources is that it exalts the power of the State over the rights of humanity and the claims of the individual.

This brings us face to face with the political grounds for opposition to the proposed extension and consolidation of the powers of the State after the War. The conduct of Germany during the War has drawn the attention of the world to the nature of the State of which Germany is the most conspicuous example—a problem which students of politics had been considering long

* See Guthrie, *Socialism before the French Revolution*; and Acton, *Lectures on the French Revolution*.

before 1914. It is idle to speculate on the probable extent of the State's economic activity after the War until some clear idea has been obtained as to the kind of State it is desirable to create. No truth is more often forgotten by those engaged in social work than the truth that economic investigation cannot by itself give a final answer to any of the great questions of national life and purpose. Economics, considered as an inquiry into the bearing of wealth on human welfare, can explore one part of the field and the economist as economist can make many valuable suggestions regarding the range and character of national economic control. But the necessary preliminary is to imagine, or, in Shakespeare's expressive phrase, to body forth the form and fashion of the State which it is practicable or desirable to establish. No student of recent economic thought can be blind to the dangers that lurk in the consideration of the problem from too narrow a point of view. From the dawn of economic science nearly every school has been apt to overlook the fact that the dominant questions of politics lie outside the strictly defined sphere of their inquiry. The conclusions of economic science have been regarded as settling once and for all the sphere and the responsibilities of the State. Indeed, we cannot dispute this proposition if we accept certain theories of social life that have gained prominence in modern times owing to the growth of natural science. If the State is simply a piece of economic machinery, created by economic forces for economic ends—a proposition laid down with different degrees of emphasis, but substantially the same meaning, by a succession of distinguished writers—clearly no room is left for a separate theory of politics. The so-called political factor in history becomes simply the

economic factor on its institutional side, and the State a mirror of the economic forces moving in society. But if, on the other hand, we treat the State as more than a mere sum of economic tendencies, and as being, so to speak, a casket in which the genius of a particular civilization is enshrined, then the first thing to be done is to inquire into the character of the State.

The English genius for politics has never taken the form of extravagant worship of the State. Other nations, particularly the French, have shown a finer wisdom in the shaping of political theories, and have expressed fundamental truths of politics more aptly and in a more arresting form than British writers. But in the practical everyday work of governing it is not idle self-praise to give the men of our own race the palm. From the beginning of English history there has everywhere been manifest a healthy distrust of authority and a desire to be as free as possible from the shackles imposed by the State. The common law of England, on its public side, developed as a protest against the feudal law and the law of the Crown. It expressed a law not made by civil authority, but springing from the customary life of the people. "In England the guardians of custom which was not particular but general were intimately connected with the central authority itself, and the sanctity of customary law was indistinguishable from that of all institutions and dignities, royal and others. The King's own power had nothing better to rest on."* The common law, therefore, was not true law in Hobbes's sense—the command of a sovereign power. It emphasized a distrust for Governments because it did not rest on the authority of the Crown or of the ruling classes. It sprang immediately

* Pollock, *Expansion of the Common Law*, p. 47.

out of the life of the people, and embodied their common-sense notions of duty and right. Of course, it had the defects of its qualities. As time went on it became increasingly technical, formal, and rigid, until the whole body of common law was revised and transformed by the development of equity in the eighteenth century and by legislation in the nineteenth century. But it rendered invaluable services to English political life. Not only has a large part of the British Constitution been shaped by the common law, but it moulded the political temperament of the English people and created that distaste for over-government which is now perhaps the most characteristic national trait.

This attitude of mind towards authority was fostered by the development of Puritanism and the rise of the philosophy of "natural rights." The Puritan teaching that in the regulation of life there is a higher authority than the State saved England from development on lines like Prussia. The radicalism that began with John Wilkes, and in the early nineteenth century became the badge of a party, was the expression in new political conditions of the same attitude towards authority that animated the Levellers and the Puritan dissenters. And it remains to this day the most important part of the nation's political equipment. Valuable as was the temperament in days when Parliament and representative institutions were struggling for existence, it is doubly necessary to maintain that spirit now that the people themselves are to a large degree responsible for the management of politics. The history of popular government shows that there are only two ways by which democratic institutions may be kept healthy and vigorous. Democracy has a chance of long life, in the first place, when the mass of the people respond at once

to the call of popular ideals, and, secondly, when the people have been accustomed for centuries to criticize their Governments. The first gives us the French, the second gives us the British, type of democracy. To this day radicalism strikes a deeper note in English political life than collectivism.* Half our troubles in this war are due to this fact, and those who imagine that the submissive attitude towards the State that has characterized the British people in the last two years is likely to be permanent will have a rude awakening. When the War comes to an end it is very likely that there will be a prolonged political reaction against the oppression of the State. That reaction may unfortunately assume the form of opposition to sound social progress, but in itself it will be a healthy symptom. If no such movement occurs, then the War will have been the greatest disaster in our political history, and Prussia, stricken, as we hope, on the battlefield, will have won a bloodless victory greater than any that will lie to our credit. Criticism is the salt of political life. Popular government cannot flourish in an atmosphere in which the State is unduly idealized. However noble may be the conception of the State, it is dangerous to over-emphasize its claims. The best State is not the State which does the most, or even the State which has the highest ideals of national life and organization, but the State which pays most regard to the political education of its citizens and preserves unimpaired their soundest instincts and traditions. It is this point of view that politicians ought never to forget, and it is this point of view that economists must learn to appreciate.

It is not at all implied in this argument that the

* This has been strikingly shown in the attitude of many English collectivists towards the War.

State should have nothing to say regarding industrial organization. *Laissez-faire* is impossible in the modern world—it is neither possible nor is it desirable. The State cannot, like the God of the Deists, “retire from the world and become careless of human affairs.” There is, indeed, scarcely any reason why the State should exist unless it can prevent society from getting into the grip of any political or economic group. It must be strong enough not to dominate society or to allow other forces to dominate it. The danger that lies in making all industries national industries, to be managed and worked by the State, is that in such a condition of affairs the State would become powerless, as it would be completely controlled by the economic interests wielding a majority in it. How far the control of the Government ought to go, and in what ways it should be exercised, are questions to which no answer can be given which does not take into account the circumstances of the country at a given time. So far as there is any absolute rule, it is not the rule of the classical economists and the Benthamites that the State should stand aside, but the principle that the State should assist the civilization of a country to develop freely according to its own inner genius. A State which cramps the free spirit of the civilization it ought to guide is a defective type of State, whether it be an aristocracy or democracy. The best argument for democracy—next to the religious or philosophical argument based on the inherent worth of the individual—is that under a democratic system there is a better chance for society to develop along lines which will bring out the best that is in it.

How do such general reflections affect the problem of the State's duty after the War? The problem may

be divided into two parts. There is, first of all, the question of the immediate future—*i.e.*, the solution of the social difficulties connected with a return from war to peace conditions. And, secondly, there are the even more difficult problems arising out of the general relation of labour to the State and to the control of industry. So far as can be seen, the need for effective Government control will be greater than ever in the period immediately after the War. The labour market has been disorganized by the Government; it will certainly not be reorganized without the help of the Government. The Government can also give valuable assistance in a variety of ways to the general commerce and trade of the country. The immediate problems with which we shall be faced will certainly involve (1) a reconstruction of our administrative system, and (2) carefully related schemes for dealing with each separate part of the social question that arises. Certain broad lines of development appear to be within the necessary minimum. First, the appointment of a Minister of Labour, who shall be responsible for all labour questions and take over duties that now devolve partly on the Board of Trade, partly on the Local Government Board, and to a small extent on the Home Office. The suggestion that the Ministry of Munitions should be continued after the War as the Ministry of Labour ought to be carefully considered, and the object and functions of the new Ministry defined by legislation.*

* One of the principal arguments against the creation of a Ministry of Labour is the danger of friction and overlapping with the Ministry of Commerce. But it is impossible for one man adequately to supervise the work of what are really two departments. The business of reconciling the interests of the two departments, where they may conflict, is surely for the Cabinet.

Secondly, a Minister of Commerce is equally essential. The phantom Board of Trade ought to give place to a reconstituted department with duties extended in several directions. The appointment and supervision of British Consuls and commercial agents in foreign countries ought to belong to this Ministry, subject in the case of the higher positions to the approval of the Foreign Office. It ought to be in the closest touch with remodelled chambers of commerce and other trading bodies throughout the country, and to be responsible for all statistics of trade and industry.

These administrative changes will justify themselves if the new officers of State steer without disaster through the first few years of peace. Everything will turn on the problem of demobilization. The first thing to be done is to have a systematic survey made of the probable demand for labour in building and constructional work, in engineering and all other industries, for the two years following the War, and to release men from the army as the calls for labour mature. There will be two great difficulties to be faced. In the first place, the greater part of the army joined the Service for the duration of the War only, and it would be novel legislation to force a man to remain in the army after his contract to serve had expired. This difficulty is not likely to prove very real, as men who know that for the time being they have no work to go back to are not likely to be anxious to resume civil life. On the other hand, a large army kept embodied for a considerable time will be the stalking-ground for every variety of revolutionary opinion, especially when men know that it is economic causes which prevent them returning to their homes. A large army that does nothing is a danger to the State. Further, unless actually in train-

ing for war, discipline is apt to become slack, and all the while the men are forgetting their former crafts and are likely to be less nimble at them when they return to civil life. There is also the danger that the State, having a large army waiting to be disbanded, should be tempted to use it for the purpose for which an army exists, and to pursue a spirited foreign policy, in spite of all its drawbacks to trade. On the other hand, the appetite for fighting may very well be exhausted. The question admits of no very definite forecast, but the probability is that the period of bad trade which must come will be postponed for two or three years. Hence, in this event disbandment may be, and probably will be, a little easier, and the problem be rather one of readjustment than anything else. Every employer engaged on munition works, or on any kind of work other than his ordinary peace work, should be invited to say to what kind of work he proposes to return when his munition orders expire, at the same time being supplied with all the information the Government has regarding the goods most likely to be in demand in his special industry. If in any industry it is probable that all the available men, either outside or inside the army, are insufficient to cope with the demand of industry, employers ought, if possible, to be encouraged by the State to train men, so that the demand may be satisfied as quickly as possible. Perhaps one of the most important permanent effects of the War will prove to be that it has made labour more mobile. That in itself will be an excellent thing both for the individual wage-earner and for the community, provided we can make our social arrangements a little more elastic than hitherto, and can get the most out of a better educational method. With a higher standard of education

a great deal of the economic waste of unemployment could be prevented and the individual could feel more security.

The problem of women's labour after the War only concerns the State at the moment on the political side. The extent of the problem is indeterminate. We do not know how many women will remain in the labour market after the War to compete with men, nor do we know how far employers will continue to employ female labour; nor do we know, except for some stray indications, what women themselves are thinking about the problem. Before this or any of the great women's questions are settled, women must be constitutionally placed in a position to influence a settlement. On the speedy enfranchisement of women depends also the solution of many other social problems.

But, most urgently required of all reforms, is an advance all along the line in education. The unaided forces of society cannot secure for the child a sufficiently long or a sufficiently stimulating educational training. It is necessary that the State should take up the work more thoroughly than private individuals or than any other social agency can do. In regard to the subjects to be taught and the methods of teaching, the State has no concern except to register and provide for the opinions prevailing in the community. But the State has the right to insist on every citizen becoming educated in some more or less definite sense of that much-abused word, and to compel the removal of every obstacle, whether imposed by parent or employer, which prevents this ideal from being an accomplished fact. The raising of the school age, compulsory half-time attendance at a day school from fourteen to eighteen years of age, the provision of adequate scholarships, the

abolition of all exemptions under fourteen—these and other reforms have been discussed long enough. It is time that Governments ceased to treat the Board of Education as the Cinderella of the Ministry—the least important office of State—and made a whole-hearted effort to carry their professed ideals into practice. Of course, the problem is not entirely a State problem. To arouse the interest of the great mass of the people in education is an object that can only be attained by the united voluntary effort of men and women in every class of society who value human life and have a true feeling for the intellectually neglected. The failure of the State to respond to high educational ideals is the price the nation pays for its want of idealism.

The second part of the problem—namely, the general future relations between the State and labour—is too vast a subject to be fully discussed at the end of a chapter. Few statements can be made with more confidence than that when labour wills to control industry—that is, when it makes the control of industry an object of conscious desire—nothing can prevent it from reaching its goal. The problem is not how to get possession of an industry, but how to take it over and manage it as a going concern. In transferring any industry from its existing owners to wage-earners, only three methods are possible: (1) forcible expropriation, (2) direct purchase by the labour engaged in the industry, or (3) purchase by money borrowed from the State or private individuals. The first may be politically possible, but from the economic point of view, however superficially attractive, it is fundamentally unsound. Good faith and confidence are economic as well as national assets of first importance. If control of an

industry were to pass from the capitalist to the wage-earner by Rob Roy's simple rule—

“ That they should get who have the power
And they should keep who can ”—

the legal possession of the machinery and plant of an industry might pass to the workers, but credit, the motive power which drives the industry, would have folded its arms and silently stolen away. The industry would no longer be a going concern. The second suggested line of action—purchase by the wage-earners themselves—is, unfortunately, impossible owing to the deplorably small amount of capital that belongs to the workers. Had their great-grandfathers foreseen the lines of economic development and begun a policy which should have been continuously pursued, of investing their savings in one particular industry or a group of industries, they might have already been in a position to control a substantial section of the industrial field. Even now more attention ought to be devoted to this matter, and financial advisory committees might well be set up by the leading Trade Unions and co-operative societies to act in conjunction with the small savings banks in order to make a thorough survey of the whole area of investment, and to try to arrange for the investment of their funds in harmony with the governing ideals of the labour movement. A carefully planned policy in this matter might put a different complexion on the history of labour during the next two or three generations.

The third method of assuming the control of industry—by purchase through money borrowed from the State or private sources—is on the whole the most feasible; that is to say, other things being equal, it has most to recommend it. If wage-earners acting con-

certainly in a given industry were prepared to borrow, and the State were prepared to lend, the capital necessary for the transference of the industry from its present owners, the time would be suitable for a well-considered scheme of adjustment between the syndicalist and the collectivist ideal. But such a transference is not at present within the range of possibility. The State may extend the area of its industrial operations in the near future by buying out the present owners of industry and taking over the control of railways, mines, and insurance companies.* Such a policy, however, could only be successful if the State took over not only the industry but the organizing ability evolved under a system of private management. The defect of labour control lies just in this, that labour has had no experience of the actual management of business. Hence associations of work-people, no matter how organized, whether in Trade Unions or in new groups formed for the purpose, would not be able to borrow from the State on sufficiently advantageous terms to make their assumption of industrial control a matter of practical politics. Labour has yet to feel its way; it has to prove in the rough world of daily experience that it has sufficient enterprise, forethought, and business acumen to justify the State in accepting a new and heavy load of responsibility.

How labour may be adequately drilled and prepared for this great step is a question for anxious consideration. In this matter something may be learnt from the political history of the British Empire. If there is one lesson deeply engraven on our constitutional fabric, it is that free development achieves more in the long-run

* As is suggested in a recent book, *How to Pay for the War*, edited by Sidney Webb.

than the hasty adoption of ideal policies. The goal of the labour movement will be reached not by artificially constructing an industrial system in which Trade Unions and working-class organizations, on the one hand, and the State on the other hand, will have their appointed and well-defined place. The end will grow out of the experience that labour and the State acquire of industrial questions as they come up for settlement. One step at a time has been the British method of advance. For the near future the path has already been marked out. Wage-earners are becoming more and more alive to the necessity for getting a share in the management of industry in all that directly concerns their welfare. If the plan outlined by Mr. Gosling and other Trade Union leaders is pressed with sufficient determination, a significant step will have been taken in the desired direction. Mr. Gosling has said: "Would it not be possible for the employers of this country to agree to put their business on a new footing by admitting the workmen to some participation, not in profits, but in control? We workmen do not ask that we should be admitted to any share in what is essentially the employer's own business—that is, in those matters which do not concern us directly in the industry or employment in which we may be engaged. But in the daily management of the employment in which we spend our working lives we feel that we, as workmen, have a right to a voice—even to an equal voice—with the management itself."* For this purpose committees of employers† and labour repre-

* At the recent Trade Union Congress. See the *Manchester Guardian* for September 5, 1916.

† For this and other purposes the present hole-and-corner Chambers of Commerce ought to be reconstituted so as to enable them to reflect the real opinions of the majority of the employing class.

sentatives should be constituted, who should be responsible for all questions affecting the welfare of labour, hours, and conditions of work. Once this step had been taken, workpeople would not only begin to appreciate the employer's point of view, but a much shorter way would have been opened towards getting the general control of industry, if that were desired. To ardent spirits this may seem nothing more than the appointment of another useless conciliation board—another addition to the intolerable number of bodies that supervise labour, harass it, and defeat its aims. But, on a far-sighted view, it would be a step pregnant with vast possibilities. It would signalize the incoming of labour into more intimate relations with the business world, and would probably open the door for the decisive struggle over the control of industry.

In conclusion, all this group of questions lies, to some extent, apart from the field of controversial politics. Never were the fortunes or ultimate destinies of the great political parties so uncertain as at present. Two predictions, however, may be made with some confidence. First, the labour movement will not and cannot stand outside the political arena. The lessons of citizenship taught by the War will permanently outweigh all the arguments for abstention from political controversies. Both labour and the State gain much by close association. Secondly, British parties will never be divided along strictly economic lines. One party will in the future do as parties in the past have done—it will borrow a policy from its opponents, and in borrowing it, completely change its character. It would not be surprising if the revolutionary doctrines of syndicalism were before long to become the economic creed of a property-owning Conservative class. Profit-shar-

ing may be used to combat the more violent demands of labour. Under both profit-sharing and syndicalism labour is definitely associated with the industrial machine. Under the first policy labour is assigned a strictly subordinate status; under the second it becomes the centre and master of industry. The hostility of labour to profit-sharing is based on the fact that profit-sharing involves substantially the maintenance of the *status quo*, since under no system of profit-sharing would labour have any share in control adequate to the necessities of the case. And as in the political world the splitting up of a single unwieldy and tyrannical sovereignty has marked an enormous step forward in human progress, so the abrogation of the right of the employing class as we know it to-day to dominate industry will mean a gain in human welfare of no small moment.

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Most of the best economic histories stop short at 1848 or thereabouts. Meredith's *Outlines of Economic History* (Pitman, 5s. net) is the only authoritative sketch that includes recent developments. For the later nineteenth century readers must rely in the main on such books as the following:

MACROSTY: *The Trust Movement in British Industry* (Longmans, Green, 9s. 6d. net).

POTTER: *Industrial Co-operation* (Swan Sonnenschein, 2s. 6d.).

KNOOP: *Municipal Trading* (Macmillan and Co., 12s. 6d.).

WEBB: *History of Trade Unionism* (Longmans, Green, 7s. 6d.).

WEBB: *Industrial Democracy* (Longmans, Green, 12s. 6d.).

BRASSEY AND CHAPMAN: *Work and Wages*.

LAYTON: *Capital and Labour* (Collins, 1s. 3d.)

B.—THE STATE IN RELATION TO INDUSTRY.

The collectivist point of view is best described in the *Fabian Essays*, and in the writings of Mr. Sidney Webb and Mr. Bernard Shaw. Professor Dicey has surveyed the history of the individualist period in his *Law and Public Opinion in England in the Nineteenth Century* (Macmillan, 10s. 6d. net)—a task also undertaken by Leslie Stephen in the first volume of his *English Utilitarians*, 3 vols., Duckworth, 15s.). Syndicalism still awaits an impartial exposition, though Estey's *Revolutionary Syndicalism* (P. S. King, 7s. 6d.) is a work of much value on the history of the movement. Harley writes about modern tendencies with considerable suggestiveness in his *New Social Democracy* (P. S. King, 6s.). The most sympathetic account of mercantilism is to be found in Dr. Cunningham's well-known *Growth of English Industry and Commerce* (3 vols., Cambridge Press, 30s. net). Mr. Conrad Gill has recently published a criticism of mercantilism called *National Power and Prosperity* (Fisher Unwin, 4s. 6d.), which is particularly useful in view of the policy recently propounded by the Prime Minister of Australia.

C.—POLITICAL THEORY AND STATE ORGANIZATION.

The ablest and most pointed analysis of modern political theories is Barker's *Political Theory from Spencer to the Present Day* (Home University Library, 1s. 3d.), which contains an excellent bibliography of recent works. On the development of liberty two essays by Lord Acton—"Freedom in Antiquity" and "Freedom in Christianity"—should be consulted, in his *History of Freedom and Other Essays* (Macmillan, 10s. net), as well as the review of May's *History of Democracy* in the same volume. For the influence of the common law on British history, readers may be referred to Sir Frederick Pollock's *Expansion of the Common Law* (Stevens and Sons, Ltd., 6s.), and to Maitland's *Constitutional History of England* (Cambridge University Press, 12s. 6d.), and Vinogradoff's *Common Sense in Law* (Home University Library, 1s. 3d.).

D.—THE WAR AND NATIONAL ORGANIZATION.

Not much of permanent value has been written on this subject, but amongst a mass of pamphlet and occasional literature the following may be consulted: "War and Industrial Organization," *Round Table*, June, 1915; "Effect of the War on Industry and Employment" (W. T. Layton), *Quarterly Review*, January, 1915; "Labour and the War"

(J. H. Harley), *Contemporary Review*, January, 1915; "Labour Unrest and the War" (J. H. Jones), *Political Quarterly*, May, 1915. Every student of these problems should consult the quarterly issues of the *Round Table*, which generally contain suggestive and brilliant articles on one phase or another of problems of organization—from the present writer's point of view slightly exaggerating the positive side of State control. For a complete list of magazine articles, see the yearly Subject Index to Periodicals published by the *Athenæum*.

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